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In the Supreme Court of the United States

OCTOBER TERM, 1954.

No. 688

THE AUTOMATIC DIE & PRODUCTS CO.,
an Ohio corporation,
Petitioner,

vs.

JOHN M. CAMPBELL and PHILMORE J. HABER,
as Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO.

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TABLE OF CONTENTS.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO 1

Opinions Below 2

Jurisdiction 2

Questions Presented 2

Constitutional Provision and Statutes Involved 3

Statement of the Case 4

Reasons for Granting the Writ 8

Argument 10

I. It is well established from the decisions of this Court that a patentee who engages in monopolistic practices expanding his patent grant will not be aided by the courts in enforcing his rights under the patent 10

II. The Federal courts which have directly passed on this question have unanimously held that the presence of a provision in a patent license agreement protecting the patentee from competition is illegal per se 13

III. Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the patent statutes, misuse of patents doctrine, and the Clayton Act, must yield to the greater public interest which precludes the enforcement of such unlawful agreements 18

Conclusion 23

APPENDIX ..... Attached

Decision of the Supreme Court of Ohio 1a

Opinion of the Supreme Court of Ohio 2a

Report of Arbitrators, With Findings of Fact, Conclusions and Award (Defendant's Exhibit 1) 10a

Supplemental Report of Arbitration (Defendant's Exhibit 2) 33a

Dissenting Report of James T. Hoffmann (Defendant's Exhibit 3) 42a

Separate Concurring Opinion (Defendant's Exhibit 4) 48a

TABLE OF AUTHORITIES.

Cases.

American Tobacco Company, et al. vs. U. S., 328 U. S. 781, 90 L. Ed. 1575, 66 S. Ct. 1125 (1946) 10

Automatic Radio Mfg. Co. vs. Hazeltine Research, Inc., 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950) 12, 15, 22

Blount Mfg. Co. vs. Yale & Towne Mfg. Co., 166 F. 555 (1909) 11

Fitzsimons vs. Eagle Brewing Co., 107 F. 2d 712 (C. C. A. 3, 1939) 19, 20

International Salt Co. vs. U. S., 332 U. S. 392, 92 L. Ed. 20, 68 S. Ct. 12 (1947) 10, 11

Katzinger vs. Chicago Metallic, 329 U. S. 394, 91 L. Ed. 374, 67 S. Ct. 416 (1947) 22

MacGregor vs. Westinghouse Elec. and Mfg. Corp., 329 U. S. 402, 91 L. Ed. 380, 67 S. Ct. 421 (1947) 9, 18, 22

McCullough vs. Kammerer Corporation, 166 Fed. 2d 759 (1948), cert. den. 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30 ..... 2, 9, 13, 15, 16

Mercoid Corporation vs. Mid-Continent Co., 320 U. S. 661, 88 L. Ed. 376, 64 S. Ct. 268 (1944) 20

Morton Salt vs. Suppiger Co., 314 U. S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942) 11, 12, 13, 14

Nachman Spring-Filled Corporation vs. Kay Mfg. Co., 139 Fed. 2d 781 (C. C. A. 2, 1943) 19, 21

National Lock Washer Co. vs. George K. Garrett Co., 137 Fed. (2d) 255 (1943) 2, 9, 13, 14, 15, 16

Oscanyan vs. Winchester Repeating Arms Co., 103 U. S. 261, 26 L. Ed. 539 (1881) 19

Park-In Theatres, Inc. vs. Paramount-Richards Theatres, 81 Fed. Suppl. 466 (1948), 90 F. Suppl. 730 (1950), affirmed 185 Fed. 2d 407, cert. den. 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017 ..... 2, 9, 13, 16

Pyrene Mfg. Co. vs. Urguhart, et al., 69 F. Supp. 555, aff'd, 175 F. (2d) 408 (1949) 11

Roberts vs. Criss, 266 F. 296 (C. C. A. 2, 1920) 19

Scott Paper vs. Marcalus, 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101 (1945) 18, 19

Sola Elec. Co. vs. Jefferson Elec. Co., 317 U. S. 173, 87 L. Ed. 165, 63 S. Ct. 172 (1942) 9, 18, 19, 21, 22

Transparent-Wrap Machine Company vs. Stokes, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947) 10, 17

United Shoe Machinery Corp. vs. U. S., 258 U. S. 451, 66 L. Ed. 708, 42 S. Ct. 363 (1922) 10

U. S. vs. Columbia Steel Co., et al., 334 U. S. 495, 92 L. Ed. 1533, 68 S. Ct. 1107, reh. den. 334 U. S. 862, 92 L. Ed. 1781, 68 S. Ct. 1525 (1948) 11

U. S. vs. Line Material Company, 333 U. S. 287, 92 L. Ed. 101, 68 S. Ct. 550 (1948) 9, 10, 13

U. S. vs. Trenton Potteries Co., 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377 (1927) 17

U. S. vs. Yellow Cab Co., et al., 332 U. S. 218, 91 L. Ed. 2010, 67 Sup. Ct. 1560 (1947) 11

Texts.

Restatement of Contracts, Sec. 600, Comment 19

Williston, Contracts (Rev. Ed.) Sec. 1630A 19

Constitution.

Constitution of the United States, Article I, Section VIII 3, 10

Statutes.

Judicial Code, Section 1257 2

15 U. S. C., Ch. 1 2

15 U. S. C. 14 (Clayton Act, Sec. 3) 3

35 U. S. C. 40 (Repealed) 3

In the Supreme Court of the United States

OCTOBER TERM, 1954.

No. . . . . . .

THE AUTOMATIC DIE & PRODUCTS CO.,
an Ohio corporation,
Petitioner,

vs.

JOHN M. CAMPBELL and PHILMORE J. HABER,
as Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF OHIO.

Petitioner prays that a writ of certiorari issue to review the judgment of the Supreme Court of Ohio (made final on January 5, 1955 by its order denying Petitioner's application for a rehearing) affirming the judgments of the Court of Appeals of the Eighth Judicial District of Ohio and of the Court of Common Pleas of Cuyahoga County, Ohio, confirming an award by a Board of Arbitrators and denying Petitioner's cross-petition to vacate the award for royalties under a patent license agreement claimed by petitioner to be invalid under the Misuse of Patents Doctrine and under the Clayton Act.

OPINIONS BELOW.

The opinion of the Supreme Court of Ohio is reported in 162 Ohio St. 321, 55 Ohio Opinions 195 and is included in the attached Appendix. The Court of Appeals for the Eighth Judicial District of Ohio did not write an opinion, nor did the Common Pleas Court of Cuyahoga County, Ohio. The majority and minority opinions of the Board of Arbitrators were offered and received in evidence in the Court of Common Pleas, and are also included in the attached Appendix.

JURISDICTION.

The judgment of the Supreme Court of Ohio was entered December 15, 1954. Petitioner seasonably filed an application for rehearing which was denied January 5, 1955. The jurisdiction of this Court is invoked under Section 1257 of the Judicial Code, and under the Anti-Monopoly Laws, Title 15 U. S. C., Ch. 1.

QUESTIONS PRESENTED.

1. In a suit for royalties under a patent license agreement where the license agreement contains a covenant not to deal in devices competitive with the licensed devices, is it sufficient within the doctrine of the *National Lockwasher, McCullough,* and *Park-In Theatre* cases, for the defendant to show the act of including the covenant and its continued presence, and will such a showing preclude a judgment for the recovery of such royalties?

2. Will local rules of estoppel which would fasten upon the public, as well as the petitioner, the burden of an agreement in violation of patent public policy, the patent statutes, and the Clayton Act yield to the public interest which precludes the enforcement of such unlawful agreement?

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED.

The U. S. Constitution, Article I, Section VIII, provides in part:

"The Congress shall have power * * *

> To promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries; * * *."

Section 3 of the Clayton Act, 15 U. S. C. 14, provides in part:

> "Sale, etc. on agreement not to use goods of competitor.
>
> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce. Oct. 15, 1914, c. 323, Sec. 3, 38 Stat. 731."

Section 40 of Repealed Title 35, U. S. Code provided in part:

> "Every patent shall contain a short title or description of the invention or discovery, correctly indicating its

nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery * * * throughout the United States and the Territories thereof, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. R. S. Sec. 4884; May 23, 1930, c. 312, Sec. 1, 46 Stat. 376."

STATEMENT OF THE CASE.

On January 30, 1950, John M. Campbell and Philmore J. Haber, Trustees of The Cork-A-Lite Development Trust, respondents herein, and The Automatic Die & Products Co., an Ohio corporation, petitioner herein, entered into a written patent license agreement relating to the manufacture and sale by petitioner of respondents' patented Campbell Super Silent automobile engine mufflers.

Pertinent provisions of the contract are:

"1. The trust warrants that it is the sole and exclusive owner of United States letters patent Nos. 2,481,390 and 2,481,391, and an application No. 657,643 for United States letters patent. * * *

* * *

"3. The trust hereby grants to Automatic the exclusive license and right to manufacture and sell, in the United States of America, the Campbell Super Silent automobile engine muffler * * *.

* * *

"5. Automatic will pay to the trust a royalty for the manufacture or sale of said mufflers herein specified, on the net sales price at which said mufflers are sold, as follows: Six per cent. (6%) of the first 200,000 mufflers; five per cent. (5%) of the next 1,800,000 mufflers, and four and one-half per cent. (4½%) on all mufflers sold thereafter * * *.

"6. Automatic agrees to pay the trust a minimum royalty of five hundred dollars ($500) per month, on the last day of each calendar month, commencing with the month of February, 1950. * * *.

* * *

"8. Automatic is hereby given the right at any time to cancel this agreement and be relieved from further responsibility thereunder, and from further minimum royalty payments upon six (6) months' written notice, but any such cancellation shall not be effective before February 1, 1951.

* * *

"10. Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent automobile engine muffler, and will not, at any time, engage in any business competing therewith.

* * *

"15. Automatic may sublicense others to manufacture and sell the mufflers under the terms of this agreement, with the same royalties to the trust.

* * *

"24. It is hereby agreed that, in case any disagreement or difference shall arise at any time hereafter between the parties hereto, * * * in relation to this contract, either as to the construction or operation thereof, or performance thereunder, or the respective rights and liabilities thereunder, such disagreement or difference shall be submitted to the arbitration of two (2) persons, one to be appointed by each party to this agreement. If the two persons so appointed are unable to agree within a period of seven (7) days, then such two arbitrators shall appoint a third arbitrator. * * * Thereafter, the three arbitrators shall

> decide the arbitration as soon as possible. * * * An award in writing, signed either by the first two arbitrators appointed, or by two of the three arbitrators, if there are three, shall be final and conclusive as to both parties, and shall not be appealable, nor shall either party have recourse to any court of law or equity as to any disagreement or difference which is subject to arbitration under this clause, if such arbitration is had, and both parties are required to follow the provisions of this agreement as to arbitration."

Prototype production models of these mufflers were manufactured at Cleveland, Ohio, from materials purchased in interstate commerce and negotiations were had with the Lincoln Mercury Division of the Ford Motor Company, which made extensive tests at Detroit, Michigan on the mufflers produced. These and other tests were completely unsatisfactory and no mufflers were manufactured for sale. A dispute arose between petitioner and respondents with respect to the performance of the contract and the respective rights and obligations of the parties thereunder.

Pursuant to paragraph 24 of the contract, respondents demanded an arbitration and the controversy was referred by the parties to a board of two arbitrators, one selected by each side. These arbitrators were unable to agree and, pursuant to paragraph 24 they selected a third arbitrator.

The illegality of the contract was fully presented by petitioner in briefs and argument to the Board of Arbitrators, which on December 19, 1952 with one arbitrator dissenting, made an award to respondents (Defendant's Exhibits 1 and 4 included in attached Appendix) in the amount of Five Thousand Dollars ($5,000.00) representing additional minimum royalties held to be payable under the license agreement. One of the arbitrators who

joined in the majority report refused to pass on the question of illegality on the ground that it was not timely raised (Defendant's Exhibits 1 and 2 included in attached Appendix). The third arbitrator dissented on the ground that the contract was illegal and unenforcible as to royalties (Defendant's Exhibit 3, included in attached Appendix). The arbitrators made certain other determinations and awards in reference to return of machinery and equipment, which have been complied with by petitioner and are not here in issue.

Subsequently, respondents filed a petition in the Court of Common Pleas of Cuyahoga County to confirm the award. Petitioner filed an answer alleging that the contract was illegal and void as being against public policy and also in violation of the Clayton Act and a cross-petition on the same grounds praying that the petition be dismissed and that the award of Five Thousand Dollars ($5,000.00) additional royalties be vacated.

The case was heard in the Court of Common Pleas of Cuyahoga County and all the arbitration proceedings, including the written reports of the arbitrators were introduced in evidence. Thereafter, the Court, without opinion, rendered judgment in favor of respondents confirming the award of the Five Thousand Dollars ($5,000.00) additional royalties.

An appeal was taken from that judgment to the Court of Appeals of the Eighth Judicial District of Ohio, which without opinion, affirmed the judgment below.

Petitioner on the ground of the illegality of the license agreement, the question of estoppel and the award of further royalties filed a motion in the Supreme Court of Ohio to require the Court of Appeals to certify its record to it for review on its merits. The motion to certify was

allowed and the case was heard and argued before that Court.

On December 15, 1954, the Supreme Court of Ohio affirmed the judgments of the Court of Appeals and the Court of Common Pleas confirming the award of the arbitrators. The Court's opinion is included in the attached Appendix.

Petitioner seasonably filed its application for rehearing in the Supreme Court of Ohio, further arguing the illegality of the contract, the Misuse of Patents Doctrine and the erroneous application to the case of a state doctrine of estoppel. The application for rehearing was denied on January 5, 1955.

REASONS FOR GRANTING THE WRIT.

This petition is filed to review the judgment of the Supreme Court of Ohio decreeing:

(a) A covenant in a Patent License Agreement by a licensee not to deal in devices competitive with the licensed devices does not per se constitute a misuse of the patent by the patentee, and

(b) Even if such a covenant is illegal as constituting a violation of patent public policy or the Clayton Act, local rules of estoppel may be invoked to foreclose the defendant from setting-up the defense.

The following reasons are relied on for the allowance of the Writ:

(1) The judgment of the Supreme Court of Ohio decides a question as to the application of the Misuse of Patent Doctrine to a patent license agree-

ment containing provisions protecting the patentee from competition, in a way probably in conflict with a long line of decisions of this Court epitomized in *U. S. vs. Line Material Company,* 333 U. S. 287, 92 L. Ed. 701, 68 S. Ct. 550 (1948).

(2) The judgment is in direct conflict with the decisions of the Circuit Court of Appeals for the 9th Circuit in *McCullough vs. Kammerer Corporation,* 166 Fed. 2d 759 (1948), cert. den. 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30 and the Circuit Court of Appeals for the 3rd Circuit in *National Lock Washer Co. vs. George K. Garrett Co.,* 137 Fed. (2d) 255 (1943) and *Park-In Theatres, Inc. vs. Paramount-Richards Theatres,* 81 Fed. Suppl. 466 (1948), 90 F. Suppl. 730 (1950), affirmed 185 Fed. 2d 407, cert. den. 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017 with respect to the legality of covenants in a Patent License Agreement prohibiting the Licensee from the manufacture or sale of competing devices.

(3) The judgment is in direct conflict with decisions of this Court in *Sola Elec. Co. vs. Jefferson Elec. Co.,* 317 U. S. 173, 87 L. Ed. 165, 63 S. Ct. 172 (1942) and *MacGregor vs. Westinghouse Elec. and Mfg. Corp.,* 329 U. S. 402, 91 L. Ed. 380, 67 S. Ct. 421 (1947) which subordinate local rules of estoppel to the paramount Federal policy against misuse of patents.

ARGUMENT.

I. It is well established from the decisions of this Court that a patentee who engages in monopolistic practices expanding his patent grant will not be aided by the courts in enforcing his rights under the patent.

The dominant question before the Court is simply whether a patent license agreement containing provisions which attempt to expand the patent grant can be enforced in view of patent public policy, the patent statutes, and Article I of Sec. 8 of the U. S. Constitution. Paragraph 10 of the instant license agreement provides in part:

> "Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automotive Engine Muffler, and will not, at any time engage in any business competing therewith."

Petitioner contends that the inclusion of such provisions in a patent license agreement is against public policy and is such an act of patent misuse as to render the agreement unenforceable so long as the misuse persists. The philosophy of the patent misuse doctrine is fully set forth in the case *U. S. v. Line Material Co.*, 333 U. S. 287, 92 L. Ed. 701, 68 S. Ct. 550 (1948), at page 316.

This Court has frequently held that the mere act of entering into a contract containing a repugnant provision such as paragraph 10 of the instant license agreement meets all the requirements of an affirmative act constituting suppression of competition. See *United Shoe Machinery Corp. v. U. S.*, 258 U. S. 451, 66 L. Ed. 708, 42 S. Ct. 363 (1922); *American Tobacco Company, et al. v. U. S.*, 328 U. S. 781, 90 L. Ed. 1575, 66 S. Ct. 1125 (1946); *Transparent-Wrap Machine Company v. Stokes*, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947); *International Salt Co. v. U. S.*, 332 U. S. 392, 92 L. Ed. 20, 68 S. Ct. 12 (1947).

It is the insistence of the petitioner that the covenant not to compete constitutes not only a misuse of the patent, but an unreasonable restraint of trade under the anti-monopoly laws. The covenant is, in fact, unlawful per se, *U. S. v. Columbia Steel Co., et al.*, 334 U. S. 495, 92 L. Ed. 1533, 68 S. Ct. 1107, reh. den. 334 U. S. 862, 92 L. Ed. 1781, 68 S. Ct. 1525 (1948); *International Salt Co. v. U. S., supra; Blount Mfg. Co. v. Yale & Towne Mfg. Co.*, 166 F. 555 (1909), and, accordingly, it is unnecessary for petitioner to show, as the Supreme Court of Ohio held, that a substantial amount of commerce was restrained, *U. S. v. Yellow Cab Co., et al.*, 332 U. S. 218, 91 L. Ed. 2010, 67 Sup. Ct. 1560 (1947). Similarly, the mere showing of an attempted overreaching of the patent monopoly is enough to prove an abuse of the patent in contravention of public policy, *Morton Salt v. Suppiger Co.*, 314 U. S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942); *Pyrene Mfg. Co. v. Urguhart, et al.*, 69 F. Supp. 555, aff'd, 175 F. (2d) 408 (1949).

The Supreme Court in the *Morton Salt* case observed that a marked distinction exists between patent misuse cases involving attempts to contravene public policy by expanding the patent grant, and restraint of trade cases under the anti-trust laws. This decision makes it abundantly clear that the controlling criterion in a misuse of patents suit is not the actual amount of competition restrained, but the fact that the patentee was engaging in a practice which to the extent it is successful would tend to restrict commerce. This Court rejected the idea of measuring the reasonableness of the restraint imposed. Once it is recognized that there is no real difference in intent and purpose between the tie-in cases and agreements not to deal in competing devices, it becomes apparent that the *Morton Salt* case prohibits restrictive provisions prevent-

ing licensees from engaging in the manufacture or sale of competing devices. See *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.*, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950), where Justice Minton speaking for the Court stated at pages 830-831:

> "Petitioner directs our attention to the 'tie-in' cases. These cases have condemned schemes * * * prohibiting production or sale of competing goods * * *."

It would appear that the Court has characterized license agreements protecting the licensor from competition as falling within the category of those tie in cases exemplified by the *Morton Salt* case. In any event such a contract or agreement represents an extension of the grant of the patent contrary to a long line of decisions of this Court which hold that the public interest in patents is paramount.

However, the Supreme Court of Ohio either misconstrued the marked distinction between misuse of patent cases and cases arising under the anti-trust laws, or it refused to apply the proper rule to the case at bar. A reading of the opinion patently discloses that the Ohio Supreme Court held that the burden was on petitioner to show the effect of the restrictive covenant was to substantially lessen competition. This is clearly not the rule under the *Morton Salt* case. The Court further sought to distinguish the instant case from the misuse of patents cases on the ground that the case at bar involved merely a suit for recovery of royalties, rather than patent infringement. After referring to the misuse of patents cases, the Supreme Court of Ohio observed that they involved primarily suits for patent infringement, and stated at page 326 of its opinion, "However, we are not here dealing with a patent infringement suit * * *."

We submit that the Supreme Court of Ohio completely overlooked the fact that under the Misuse of Patents Doctrine the paramount interest to be protected is the public interest. The operative fact which is repugnant to and in violation of that public interest is the presence of a restrictive covenant prohibiting the licensee from engaging in a competitive business. In other words, the harm to the public interest arises *ipso facto* from the restrictive covenant itself, and consequently the degree of harm to the public interest is identical, whether there is involved a suit for patent infringement or an action for the recovery of royalties. The rationale of the Misuse of Patents Doctrine is to deter monopolistic practices by the patentee, by depriving the patentee who engages in such practices from enforcing his rights under the patent. The doctrine patently applies with equal force to suits for infringement or for recovery of royalties.

Its origin is to be found in the patent statute and the U. S. Constitution, both of which clearly express the limited nature of the patent grant. Accordingly, the judgment of the Supreme Court of Ohio conflicts with *Morton Salt v. Suppiger* and also with a long line of well established decisions of this Court, epitomized in *U. S. v. Line Material Co., supra.*

II. The Federal courts which have directly passed on this question have unanimously held that the presence of a provision in a patent license agreement protecting the patentee from competition is illegal per se.

The Federal cases of *National Lock Washer Co. v. George K. Garrett Co., Inc., McCullough v. Kammerer,* and *Park-In Theatres, Inc. v. Paramount-Richards Theatres, supra,* unequivocally declare that a patent license agreement containing a covenant prohibiting the licensee

from the manufacture, sale or use of competing devices is illegal per se as against public policy. By definition, the very purpose of the doctrine of these cases is to discourage from the outset action which is deemed harmful to the public interest. The doctrine is primarily concerned with guarding against the injurious consequences to the public interest which necessarily result from the policy of a patentee inserting such restrictive covenants in license agreements. Such a doctrine is astonishingly realistic as it has the effect of initially protecting the public interest without interfering or unduly restricting the patentee's rights. The doctrine is neither new nor novel, but is fully embraced within the rationale of the *Morton Salt* case.

Referring to the line of decisions of the Supreme Court denying relief to patentees who abuse their rights acquired under patents, the Court of Appeals for the Third Circuit in the *National Lock Washer* case recognized that the philosophy of the patent misuse decisions of the Supreme Court clearly condemned any scheme by which a patentee attempted to expand his patent grant. That court held that the mere presence of a restrictive provision in the patent license agreement which confined a licensee's activity beyond the precise monopoly covered by the patent grant disentitled the patentee to any relief. In this case the court decided that a provision in a patent license agreement precluding the licensee from the manufacture or sale of competing devices was illegal per se, and consequently was sufficient to sustain the defense of patent misuse.

The pertinency of the *Lock Washer* case cannot be successfully challenged. A reading of the restrictive provisions in the contract there under consideration and paragraph 10 of the present license agreement makes it abundantly clear that they are substantially identical.

The *Lock Washer* case was cited by the Supreme Court in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., supra.*

A later case decided by the Court of Appeals for the Ninth Circuit, *McCullough v. Kammerer, supra,* likewise has applied the doctrine of patent misuse as extending to restrictions by way of patent license agreements protecting the licensor from competition on other articles or devices. The facts of that case present a close parallel to the present case. In the *McCullough* case, the license agreement in suit was an exclusive license, as is true in the case at bar.

In the *McCullough* case, the licensee was prohibited by agreement from making and using any article or device other than that covered by the licensed patent. Petitioner in the case at bar is restricted by the license agreement in suit from making and selling any muffler other than that covered by the patent.

The defendant in the *McCullough* case contended that the restrictive provision prevented free competition and consequently the contract was unenforcible. The lower court overruled this contention and on appeal a majority of the court reversed.

The principle that protection from competition by contract in connection with patent devices, however sought, will deprive the patentee of relief is very aptly stated by Judge Denman, in the *McCullough* case at page 762, as follows:

> "The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public's interest to use the patent to suppress such competition. As stated by the Supreme Court in the recent case of Transparent-Wrap Mach. Corporation v.

> Stokes & Smith, 329 U. S. 637, 644, 67 S. Ct. 610, 614: 'Protection from competition in the sale of unpatented materials is not granted by either the patent law or the general law. He who uses his patent to obtain protection from competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade.' "

Again, the similarity between the restrictive provisions of the *McCullough* case and the one at bar is most striking.

Writ of certiorari was denied in the *McCullough* case on October 11, 1948, reported at 335 U. S. 813, 93 L. Ed. 368, 69 S. Ct. 30.

The most recent case on the question is *Park-In Theatres v. Paramount-Richards Theatres, supra,* holding the recovery of royalties is precluded under an agreement containing a provision preventing competition. That case discusses the precise question involved in the case at bar, as well as the *Lock Washer* and the *McCullough* cases and the applicable opinions of the Supreme Court. The covenant of the license agreement involved in the *Park-In Theatre* case is also very similar to paragraph 10 in the instant case. There the court held that such a covenant constituted an unwarranted attempt to extend the patentee's monopoly and, accordingly, denied the patentee any relief. Writ of certiorari was denied in the *Park-In Theatre* case on June 4, 1951 reported at 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017.

It is clear from the foregoing cases that a restrictive covenant such as the one contained in the instant case is illegal per se, for the reason that such a covenant prevents petitioner from making any other muffler and from engaging in any business competing with the patented muffler. This necessarily constitutes a suppression of com-

petition and an unlawful attempt to expand the patent grant. We submit that under the doctrine laid down by the foregoing cases it is not necessary that evil intent or actual injury to the public be shown, but it is sufficient if the restriction tends to suppress competition to the detriment of the public, which will necessarily be the result when a contract contains a covenant of the nature herein involved. This doctrine was also reemphasized by this Court in *Transparent-Wrap Machine Co. v. Stokes*, 329 U. S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1946), where the Court stated at p. 641:

> "Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned. Morton Salt v. G. S. Suppiger Co. * * *. For it is the tendency in that direction which condemns the practice and which, if approved by a court, either through enjoining infringement or enforcing the covenant would receive a powerful impetus."

The rule against misuse of patents is based on the policy of the anti-trust laws and it is well settled that these laws forbid an agreement in restraint of commerce whether or not followed by overt acts carrying it to effect. *U. S. v. Trenton Potteries Co.*, 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377 (1927).

As previously stated, the Supreme Court of Ohio completely disregarded the misuse of patents cases in attempting to distinguish the instant case on the ground that it involved only a suit for the recovery of royalties rather than patent infringement.

Accordingly, the judgment of the Supreme Court of Ohio is directly contrary to the decisions of the Circuit Court of Appeals for the Ninth Circuit and the Circuit Court of Appeals for the Third Circuit.

III. Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the patent statutes, misuse of patents doctrine, and the Clayton Act, must yield to the greater public interest which precludes the enforcement of such unlawful agreements.

Regardless of the finality of the decision of the Supreme Court of Ohio as a matter of local law, in cases such as the one at bar where the claim is for royalties under a patent license agreement and the defense is illegality under the patent and anti-trust laws, any question of estoppel to assert such illegality would logically seem to be a Federal question to be resolved in the light of the purposes and policies of the Federal patent and anti-trust laws, and this Court has so held. *Sola Electric Co. v. Jefferson Elec. Co., supra*; *Scott Paper v. Marcalus*, 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101 (1945); *MacGregor v. Westinghouse Electric Mfg. Corp., supra.*

It is important, however, that here there was no factual basis for an estoppel. The defense of illegality based on the misuse of patents doctrine and the Clayton Act was raised and argued by petitioner before the Board of Arbitrators prior to the award here sued upon. That same defense was specifically pleaded and likewise relied upon by petitioner in its cross-petition to vacate the award in the Trial Court, and in its subsequent appeal. None the less, the Supreme Court of Ohio, apparently in an attempt to buttress a weak opinion, resorted to some vague concept of estoppel in the second syllabus of the case, the syllabi being the law of the case under Ohio practice.

The decisions of this Court and of lower Federal Courts have all held that the parties to a suit or the Court *sua sponte,* can raise the question of illegality of an agreement at any time where a public interest is involved, and

that the defense of illegality cannot be effectively waived. *Sola Electric Co. v. Jefferson Electric Co., supra*; *Scott Paper v. Marcalus, supra*; *Oscanyan v. Winchester Repeating Arms Co.*, 103 U. S. 261, 26 L. Ed. 539 (1881); *Roberts v. Criss*, 266 F. 296, 302 (C. C. A. 2, 1920); *Fitzsimons v. Eagle Brewing Co.*, 107 F. 2d 712 (C. C. A. 3, 1939); *Williston, Contracts* (Rev. Ed.) Sec. 1630A; *Restatement of Contracts*, Sec. 600, Comment.

In *Nachman Spring-Filled Corporation v. Kay Mfg. Co.*, 139 Fed. 2d 781 (C. C. A. 2, 1943), Judge Frank speaking for the Court stated at page 783:

> "* * * This contention was not made in the court below; but we do not reject it on that account, since Muncie Gear Co. v. Outboard Co., 316 U. S. 759, 766, 768, 62 S. Ct. 865, 870, 86 L. Ed. 1171 seems to us to hold that regard for 'public interest sought to be safeguarded by the patent statutes, and so frequently present but so seldom adequately represented in patent litigation' requires that an upper court should consider important defenses in such litigation even though not raised in the court below."

This Court had also held in *Oscanyan v. Winchester Repeating Arms Co.*, 103 U. S. 261, 26 L. Ed. 539 (1881) that the illegality of the contract could be considered without being pleaded, saying at page 267:

> "The position of the plaintiff that the illegality of the contract in suit cannot be noticed, because not affirmatively pleaded, does not strike us as having much weight. We should hardly deem it worthy of serious consideration had it not been earnestly pressed upon our attention by learned counsel but it (objection of illegality) was one which the court itself was bound to raise in the interest of the due administration of justice. The court will not listen to claims founded upon services rendered in violation of common decency, public morality or the law * * *. It would not

be restrained by defects of pleading, nor, indeed, could it be by the defendant's waiver, if we may suppose that in such a matter it would be offered."

Also, in *Mercoid Corporation v. Mid-Continent Co.*, 320 U. S. 661, 88 L. Ed. 376, 64 S. Ct. 268 (1944), Mr. Justice Douglas, speaking for the Court said, at page 670:

" 'Courts of equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.' Virginian Ry. Co. v. System Federation, 300 U. S. 515, 552, 57 S. Ct. 592, 601, 81 L. Ed. 789. 'Where an important public interest would be prejudiced' the reasons for denying injunctive relief 'may be compelling.' City of Harrisonville v. W. S. Dickey Clay Co., 289 U. S. 344, 338, 53 S. Ct. 602, 603, 77 L. Ed. 1208. And see U. S. v. Morgan, 307 U. S. 183, 194, 59 S. Ct. 795, 801, 83 L. Ed. 1211. * * * That principle is controlling here. The parties cannot foreclose the courts from the exercise of that discretion by the failure to interpose the same defense in an earlier litigation. Cf. Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173, 63 S. Ct. 172 (87 L. Ed. 165)."

In *Fitzsimons v. Eagle Brewing Co.*, 107 Fed. 2d 721 (C. C. A. 3, 1939), Justice Clark speaking for the Court stated, at page 713:

"As the interest of the state and not the quality of the act is important, questions of mala in se and mala prohibita, moral turpitude, etc. are irrelevant and have been so declared by the great weight of authority."

This effectively refutes the distinction by the Supreme Court of Ohio at page 328 in characterizing the restrictive covenant in issue as not "so pernicious and so inherently bad that its provisions could not be waived."

The foregoing cases confirm that the relative equities of the parties to a suit are subordinate to the protection of the public interest and, accordingly, parties cannot be estopped from raising the defense of illegality nor can the illegality be waived.

In *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U. S. 173, 63 S. Ct. 172, 87 L. Ed. 165 (1942), Justice Stone speaking for the Supreme Court stated, at page 177:

> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforce of such unlawful agreements. Cf. Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 492, 493, 86 L. Ed. 363, 365, 366, 62 S. Ct. 402."

Justice Frank in *Nachman Spring-Filled Corporation v. Kay Mfg. Co., supra,* in commenting on the *Sola* case and in answer to the argument that the *Sola* doctrine is applicable only to an agreement which fixed prices, after stating that the Court could not agree to such an argument, said:

> "The citation in the Sola opinion of the Morton Salt case is significant * * *."

Indeed it is significant, for in the latter case this Court based its decision on the Misuse of Patents Doctrine and held that it was not necessary to determine whether there had been a violation of the Clayton Act. In other words, the *Sola* doctrine supports petitioner's contention that local rules of estoppel are subordinate to the protection of the public interest whether that interest arises from Federal statutes or judicial decisions and, accordingly, courts must in the interest of the public have a free hand to chal-

lenge any agreements which tend to invade the public's rights. This is the most reasonable interpretation of the *Sola* doctrine for as this Court said in *Katzinger v. Chicago Metallic*, 329 U. S. 394, 91 L. Ed. 374, 67 S. Ct. 416 (1947), in an opinion by Mr. Justice Black, at page 401:

> "Moreover, solicitude for the interest of the public fostered by freedom from invalid patents and from restraints of trade, which has been manifest by the line of decisions of which the Scott Paper Co. and Sola Cases are two of the latest examples, requires that there should be no departure from the guiding principles they announced."

These same guiding principles dictate the conclusion that one who seeks to challenge an invalid license provision should be permitted to make that challenge. It seems clear that there are no considerations arising from the simple licensor-licensee relationship which would justify a contrary rule. See also *MacGregor v. Westinghouse Electric & Mfg. Corp., supra*; *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., supra.*

The foregoing authorities make it abundantly clear that a patent licensee is not estopped irrespective of state doctrines of estoppel, to challenge the legality of a license agreement. Accordingly, the decision of the Supreme Court of Ohio in the case at bar in holding that a licensee is estopped to raise a misuse of patents defense in a royalties action is contrary to the decisions of this Court subordinating local rules of estoppel to the paramount Federal policy, and should be reviewed by this Court.

CONCLUSION.

The obvious conflict of the decision of the Supreme Court of Ohio with decisions of this Court and with the decisions of the Courts of Appeals for the Third and Ninth Circuits on the questions herein presented, should be resolved by this Court. For the foregoing reasons this petition for a writ of certiorari should be granted.

WHEREFORE, petitioner prays that a writ of certiorari issue out of and under the seal of this Honorable Court directed to the Supreme Court of the State of Ohio commanding that court to certify and send to this Court for its review and determination a full and complete transcript of the record below, and that the decision of the Supreme Court of Ohio be reversed, and that the petitioner shall have such other and further relief as may be just.

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APPENDIX.

DECISION OF THE SUPREME COURT OF OHIO.

THE SUPREME COURT OF OHIO

Of the Term of January, A. D. 1954

To-wit: Wednesday, December 15, 1954.

No. 33,851.

JOHN M. CAMPBELL and PHILMORE J. HABER,
as Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Plaintiffs-Appellees,

vs.

THE AUTOMATIC DIE & PRODUCTS CO.,
an Ohio corporation,
Defendant-Appellant.

APPEAL FROM
THE COURT OF APPEALS OF CUYAHOGA COUNTY.

This cause came on to be heard upon the transcript of the record of the Court of Appeals of Cuyahoga County, and was argued by Counsel. On consideration whereof, it is ordered and adjudged by this Court, that the judgment of the said Court of Appeals be, and the same is hereby, affirmed; and it appearing to the Court that there were reasonable grounds for this appeal, it is ordered that no penalty be assessed herein. It is further ordered that the Appellees recover from the Appellant their costs herein expended taxed at $_____.

ORDERED, that a special mandate be sent to the Court of Common Pleas of Cuyahoga County to carry this judgment into execution. ORDERED, that a copy of this entry be certified to the Clerk of the Court of Appeals of Cuyahoga County, "For Entry." (SEAL.)

(Application for Rehearing Denied January 5, 1955. Judgment entered January 6, 1955 by Court of Appeals of Cuyahoga County, Journal 20, page 2.)

OPINION OF THE SUPREME COURT OF OHIO.

Contracts—Agreement between patentee and manufacturer of device—Manufacturer agreeing not to engage in competing business—Not per se illegal under federal statute, when—Section 14, Title 15, U. S. Code—Lessening competition or creating monopoly—Controversy as to rights under contract—Voluntary submission to arbitration—Estoppel to question illegality of contract.

1. A written contract by which a patentee of a device gives one agreeing to manufacture it an exclusive right to manufacture and sell the device is not per se illegal and void and violative of Section 3 of the so-called Clayton Act (Section 14, Title 15, U. S. Code) because of the inclusion of a provision to the effect that the manufacturer will not make or sell any similar device and will not engage in any business competing therewith.
2. Where such device is never produced for sale or marketed and a controversy arises between the patentee and the manufacturer regarding the performance of the contract and the respective rights of the parties thereunder and such controversy is voluntarily submitted by the parties to arbitrators for full and final disposition as stipulated by the terms of the contract, the manufacturer is estopped, after the arbitration proceeding has progressed to a considerable extent, to raise the question of the illegality and unenforceability of the contract based on the provision relating to the manufacture and sale of a similar device and the engaging in any business competing therewith.

(No. 33851—Decided December 15, 1954.)

APPEAL from the Court of Appeals for Cuyahoga County.

The present case involves the validity of a court approved arbitration award, which award was made pursuant to provisions of a contract covering the manufacture and sale of automobile mufflers.

On January 30, 1950, John M. Campbell and Philmore J. Haber, Trustees of the Cork-a-Lite Development Trust, hereinafter designated the trust, and The Automatic Die & Products Company, an Ohio corporation, hereinafter called Automatic, entered into a written contract relating to the manufacture and sale by Automatic of Campbell Super Silent automobile engine mufflers.

Pertinent provisions of such contract as they may have a bearing on this case are:

"3. The trust hereby grants to Automatic the exclusive license and right to manufacture and sell, in the United States of America, the Campbell Super Silent automobile engine muffler * * *.

"* * *

"6. Automatic agrees to pay the trust a minimum royalty of five hundred dollars ($500) per month, on the last day of each calendar month, commencing with the month of February, 1950. * * *

"* * *

"8. Automatic is hereby given the right at any time to cancel this agreement and be relieved from further responsibility thereunder, and from further minimum royalty payments upon six (6) months' written notice, but any such cancellation shall not be effective before February 1, 1951.

"* * *

"10. Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent automobile engine muffler, and will not, at any time, engage in any business competing therewith.

"* * *

"15. Automatic may sublicense others to manufacture and sell the mufflers under the terms of this agreement, with the same royalties to the trust.

"* * *

"24. It is hereby agreed that, in case any disagreement or difference shall arise at any time hereafter between the parties hereto, * * * in relation to this contract, either as to the construction or operation thereof, or performance thereunder, or the respective rights and liabilities thereunder, such disagreement or difference shall be submitted to the arbitration of two (2) persons, one to be appointed by each party to this agreement. If the two persons so appointed are unable to agree within a period of seven (7) days, then such two arbitrators shall appoint a third arbitrator. * * * Thereafter, the three arbitrators shall decide the arbitration as soon as possible. * * * An award, in writing, signed either by the first two arbitrators appointed, or by two of the three arbitrators, if there are three, shall be final and conclusive as to both parties, and shall not be appealable, nor shall either party have recourse to any court of law or equity as to any disagreement or difference which is subject to arbitration under this clause, if such arbitration is had, and both parties are required to follow the provisions of this agreement as to arbitration."

No mufflers were manufactured for sale, and a dispute arose between the trust and Automatic with respect to the performance of the contract and the respective rights and obligations of the parties thereunder.

As provided by paragraph 24 of the contract the controversy was referred by the parties to two arbitrators, one selected by each side, for decision. These arbitrators were unable to agree and pursuant to paragraph 24 they selected a third arbitrator.

On December 19, 1952, after many months of consideration and deliberation, an award in the sum of $5,000 was made to the trust by two of the arbitrators, the third

registering a dissent on the ground that the contract was illegal and unenforceable.

Subsequently, the trust filed a petition in the Court of Common Pleas of Cuyahoga County to confirm the award. Automatic filed an answer alleging that the contract was illegal and void and a cross-petition praying that the petition be dismissed and that the award be set aside.

A hearing was had in the Court of Common Pleas, and all the arbitration proceedings, including the written reports of the arbitrators, were introduced in evidence.

Thereafter, the court rendered judgment in favor of the trust, confirming the award and ordering Automatic to pay the trust the sum of $5,000.

An appeal from such judgment was taken to the Court of Appeals, which affirmed the judgment below. There was no written opinion by either of the lower courts.

The allowance of a motion to require the Court of Appeals to certify its record brings the cause here for review on its merits.

Messrs. Halle, Haber, Berick & McNulty, for appellees.

Messrs. Spieth, Spring & Bell, Mr. William M. Nelson, Jr., and *Mr. James S. Pedler, Jr.,* for appellant.

ZIMMERMAN, J. Automatic, in seeking a reversal of the judgment of the Court of Appeals and the rendition of a final judgment in its favor by this court, makes three principal contentions:

1. The contract of January 30, 1950, between the trust and Automatic is illegal and void because the second sentence of paragraph 10 thereof represents an attempt by the trust to enlarge its patent monopoly contrary to public policy and in violation of Section 3 of the so-called Clayton Act (Section 14, Title 15, U. S. Code); hence any attempt by arbitrators to award royalties to the trust under such contract is a nullity.

2. The question of the illegality of the contract could be raised at any time before the arbitration award was made.

3. The award of royalties by the arbitrators being illegal can not be enforced in a court action to confirm the award.

Section 3 of the Clayton Act reads as follows:

> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to * * * make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States * * * on the condition, agreement, or understanding that the * * * purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the * * * seller, where the effect of such * * * sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

For convenience, we repeat paragraph 10 of the contract here involved:

> "Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent automobile engine muffler, and will not, at any time, engage in any business competing therewith."

In contending that the second sentence in paragraph 10 renders the contract illegal and unenforceable, Automatic leans heavily on the cases of *National Lockwasher Co. v. George K. Garrett Co., Inc.* (C. C. A. 3, 1943), 137 F. (2d) 255; *McCullough v. Kammerer Corp.* (C. C. A. 9, 1948), 166 F. (2d) 759, certiorari denied, 335 U. S. 813, 93 L. Ed., 368, 69 S. Ct. 30; and *Park-in Theatres, Inc., v.*

Paramount-Richards Theatres (D. C., Del., 1948), 81 F. Supp. 466, affirmed 185 F. (2d) 407, certiorari denied 341 U. S. 950, 95 L. Ed. 1373, 71 S. Ct. 1017.

The first two of the cases above cited involved suits strictly for patent infringements, and the third included that element. The opinions in all three of the cases contain language, based on the facts of the particular cases, which supports the proposition that a licensing contract, containing a provision whereby the licensee undertakes not to manufacture, sell or use any devices other than those of the patentee, is monopolistic, goes beyond the patent grant, and, contrary to public policy, could result in driving competiting devices from the market.

However, we are not here dealing with a patent infringement suit, and Section 3 of the Clayton Act upon which Automatic relies in pressing this appeal would seem not to make such a provision in a contract *ipso facto* unlawful or unenforceable. The validity or invalidity of such provision depends upon its operative effect. Thus in the case of *Pick Mfg. Co. v. General Motors Corp.* (1936), 299 U. S. 3, 81 L. Ed. 4, 57 S. Ct. 1, there was challenged the validity of a contract wherein the dealer agreed that he would not sell, offer for sale or use in the repair of a designated make of motor vehicle any part or parts not manufactured or authorized by the motor car manufacturer. Both the United States District Court and the United States Circuit Court of Appeals found as a matter of fact that the effect of the clause had not been in any way substantially to lessen competition or to create a monopoly in any line of commerce and rendered decrees for the manufacturer; and the Supreme Court affirmed the decree of the United States Circuit Court of Appeals.

In the case of *Kay Petroleum Corp. v. Piergrossi* (1951), 137 Conn. 620, 79 A. (2d) 829, plaintiff and defendants entered into an exclusive sales contract whereby defendants, for a specified number of years, agreed to purchase from the plaintiff their entire supply of gasoline and oil to be used or sold at their gasoline service station. Defendants breached the contract and plaintiff brought an

action to recover damages for such breach, in which it was successful.

Defendants claimed that the contract was violative of Section 3 of the Clayton Act by reason of the restriction not to deal in the gasoline and oil products of anyone other than the plaintiff.

Disposing of this contention the Connecticut Supreme Court of Errors said:

> "To bring a case within the section, it is essential that the contract be operative to foreclose competition in a substantial share of the line of commerce affected. * * * In the absence of evidence that a contract is thus effective to preclude competition, there is no basis for considering that it is unlawful under the act. * * * In the instant case, not only were no facts found but no evidence was offered to indicate that this contract was operative to foreclose competition in any degree, let alone to the extent of a 'substantial share of the line of commerce affected.' "

So in the case before us, none of the trust's mufflers were manufactured for sale and there is nothing to show that the restriction contained in the second sentence of paragraph 10 had any effect in substantially lessening competition or tending to create a monopoly.

It is a matter of common knowledge that there are many different makes of motor car mufflers on the market and in use. Here, the trust's muffler was never produced commercially and never entered the competitive field.

But assuming that the trust in an action brought by it for patent infringement or to recover royalties or both would be defeated by reason of the second sentence in paragraph 10, it does not follow that such sentence is so pernicious and so inherently bad that its provisions could not be waived in a dispute between the parties with respect to liabilities and obligations under other parts of the contract and which dispute by agreement of the parties was submitted to arbitration under the terms of paragraph 24 of the contract.

Here the parties did agree to arbitration, and arbitrators were chosen as prescribed in paragraph 24. A protracted hearing took place at considerable expense in which a great deal of evidence was introduced and in which each of the parties was represented by counsel. It was not until far into the hearing that Automatic made the claim that the contract was illegal and unenforceable by reason of the second sentence in paragraph 10.

Two of the arbitrators determined, and we think correctly, that Automatic's claim of illegality came too late, and that it was then estopped from successfully raising that issue. Compare *Parks, a Taxpayer, v. Cleveland Ry. Co.*, 124 Ohio St. 79, 177 N. E. 28.

If Automatic wished to test the legality of the contract, it could and should have brought an action to rescind on the ground of illegality or it could have refused to arbitrate under the contract thus forcing the trust to call upon the courts under the arbitration statutes (Section 12148-1 *et seq.*, General Code [Section 2711.01 *et seq.*, Revised Code]) to compel Automatic to submit the controversy to arbitrators for disposition.

It is the policy of the law to favor and encourage arbitration and every reasonable intendment will be indulged to give effect to such proceedings and to favor the regularity and integrity of the arbitrator's acts. 6 *Corpus Juris Secundum*, 152, Arbitration and Award, Section 1; *Corrigan v. Rockefeller*, 67 Ohio St. 354, 367, 66 N. E. 95, 98.

In the instant case the arbitrators considered and decided the questions presented to them with respect to the conflicting claims of the parties under the contract and they did not exceed their powers within the contemplation of subdivision (d) of Section 12148-10, General Code (Section 2711.10, Revised Code).

We find no error in the judgment of the Court of Appeals, and the same is hereby affirmed.

Judgment affirmed.

MIDDLETON, TAFT, HART and LAMNECK, JJ., concur.

REPORT OF ARBITRATORS, WITH FINDINGS OF FACT, CONCLUSIONS AND AWARD.

(Defendant's Exhibit 1.)

In Re Arbitration Between the Automatic Die & Products Company and Cork-a-lite Development Trust.

SUBJECT OF THE ARBITRATION.

The subject matter of this arbitration is a controversy between the above named parties involving a number of disputed questions, both of fact and law, arising from and under a written contract between these parties dated January 30, 1950. For convenience, these parties will hereinafter be referred to, respectively, as "Automatic" and "Cork-A-Lite," and the contract just mentioned will be referred to as the "Second Contract." At the time this contract was made, these parties were already in contractual relationship with each other under a written contract dated August 26, 1949, which will hereafter be referred to as the "First Contract." Since each of these contracts contain recitals which indicate that they were executed in various counterparts and since it appeared at the hearings that one of these counterparts was in the possession of each party in interest, the arbitrators have seen no need to include a complete digest of either contract in this report. They will therefore try to summarize or quote only such portions of each contract as appear necessary to a statement of the matters in controversy.

Partly by a recital in said First Contract and partly by the statements of counsel at the outset of the arbitration hearing, it appears without controversy that at some time before the First Contract was made, one John M. Campbell had made three interrelated applications for United States Letters Patent contemplating production of an insulating material and of an automobile engine muffler of which the basic principle was the substitution, in place of the metallic partitions or baffles of the metallic cylindrical mufflers then and now in general use, of a lining composed of an insulating and sound-absorbing material which was to be

inserted into the mufflers in plastic form by an extruding machine and then to be dried and solidified by heat; that Mr. Campbell had subsequently assigned all his rights under said applications for patents and under any Letters Patent which might be granted thereon to the Cork-A-Lite Development Trust; and that later the Cork-A-Lite Development Trust, of which Mr. Campbell was one of the two operating trustees, had granted to a corporation known as Campbell Industries, Inc., of which Mr. Campbell was the president and presumably a substantial stockholder, an exclusive license to manufacture and sell in the United States of America a muffler embodying the material and principle on which said patent applications were based, known as the "Campbell Super Silent Automobile Engine Muffler," and to use in connection therewith "formulas and methods" owned by Cork-A-Lite for extruding and making Cork-A-Lite plastic insulation to be inserted and contained in said muffler. The First Contract was primarily an agreement between Automatic and Campbell Industries, Inc., which for convenience was generally referred to in that contract and will hereafter be referred to as "Campbell."

By that First Contract, following recitals that Campbell had been given an exclusive license by Cork-A-Lite to manufacture and sell the Campbell Super Silent Automobile Engine Muffler and to use formulas and methods owned by Cork-A-Lite as stated in the preceding paragraph, and that Campbell desired to engage Automatic to manufacture and make said mufflers so that the same could be sold by Campbell, Campbell granted to Automatic an exclusive license to manufacture said muffler in the United States for a term of fifteen years from the date of that agreement. Campbell further agreed to purchase from Automatic and Automatic agreed to make, in conformity with working drawings and specifications to be supplied by Campbell, production dies necessary for the fabrication of all metal parts of the mufflers. For these dies, Campbell was to pay a total sum of $11,850.00 in instalments, viz., $5,925.00 contemporaneously with the

execution of the contract; $2,925.00 within sixty days thereafter; and the balance of $3,000.00 by adding 20 cents to the price of each of the first 15,000 mufflers to be produced by Automatic (and which as provided later in the contract were to be purchased by Campbell) and in any event within a period not to exceed ninety days after the beginning of production.

These dies were then to be left in the possession of Automatic and to be used by them in the production of mufflers. Automatic was to keep them in good working condition, and to repair and maintain them, but any new or additional dies which were required were to be at Campbell's expense.

Campbell further agreed, in the First Contract, to furnish to Automatic a considerable number of items of equipment specifically enumerated to be used in producing the plastic parts of said mufflers, among which may be noted a Cork-A-Lite "extruding machine" and two adapters to be used in connection therewith, "and all other necessary equipment to efficiently produce the plastic parts of said muffler." The only item excepted from the language of the preceding paragraph was a drying oven, which was to be procured by Campbell at joint and equal expense of the parties. Campbell reserved title to all this special equipment but agreed that it was to remain in the possession of Automatic to be used by it in the production of mufflers. Automatic agreed in the First Contract to furnish all labor and material necessary to manufacture and produce said mufflers and the component parts thereof in accordance with the working drawings furnished by Campbell; to furnish various machinery and equipment, including various items specifically enumerated, "and the necessary machinery to form, shape and fabricate all of the metal parts of said muffler"; to produce said mufflers in good workmanlike manner, to have the same packed and ready for shipment in special cartons each of which was to contain six mufflers and to ship the same from time to time upon orders or instructions from Campbell.

For all mufflers thus produced and shipped, Campbell was to pay at an agreed scale of prices per muffler, which prices were to be subject to adjustment under certain contingencies, and in general, to diminish as the quantities produced and shipped increased.

By one of the earlier paragraphs of this First Contract, Campbell warranted that it had full right to grant to Automatic the foregoing exclusive right to manufacture said muffler, and covenanted (1) that so long as Automatic fully performed this agreement, it should not be affected by any cancellation or termination of Campbell's license from Cork-A-Lite and that Cork-A-Lite should not grant any further license as to said patents except upon the stipulation that Automatic should continue as the exclusive manufacturer of said mufflers "under the terms and conditions of this agreement."

By a special paragraph signed in its behalf by its trustees at the end of the foregoing First Contract, the Cork-A-Lite Development Trust approved the foregoing agreement between Campbell Industries, Inc. and Automatic and agreed to be bound thereby in so far as the contract related to it.

THE SECOND CONTRACT.

The Second Contract, dated January 30, 1950, begins with a recital of the execution of the First Contract, and recites that Campbell proposes to dissolve and go out of business and that "the parties hereto are desirous of suspending the further operation and effect of said agreement of August 26, 1949, and * * * of contracting with respect to the matters therein contained."

Next, Cork-A-Lite warrants (in paragraph numbered 1) that it is the sole and exclusive owner of two United States Letters Patent and one application for Letters Patent (presumably covering the same inventions described in the First Contract) and that no licenses have been granted under the same except the license heretofore granted to Campbell, which license is to be wholly can-

celed. The next paragraph (numbered 2) reads in full, as follows:

> "2. The Trust warrants that, by virtue of said patents and application for patent, it thereby exclusively owns the right to manufacture and sell, in the United States of America, the Campbell Super Silent Automobile Engine Muffler, adapters or attachments to fit the mufflers to the manifolds, and/or tail pipes of motor vehicles, and formulas and methods for extruding and making Cork-A-Lite plastic insulation, to be inserted and contained in said mufflers."

By the next two paragraphs (numbered 3 and 4) Cork-A-Lite grants to Automatic an exclusive license to manufacture and sell in the United States the Campbell Super Silent Engine Muffler (except for use in airplane engines), and attachments for the same, and to use, in connection therewith, "formulas and methods for extruding and making Cork-A-Lite plastic insulation to be inserted and contained in said mufflers," under said patents or any extensions thereof and any additional patents which may be issued, and stipulates that said license shall extend throughout the life of said patents.

The next three paragraphs (numbered 5, 6 and 7) provide that Automatic shall pay to Cork-A-Lite royalties at various percentages of its selling prices of the mufflers, which percentages are to be reduced as the quantities sold increase, and in any event shall pay a minimum royalty of $500.00 per month on the last day of each month, beginning with the month of February, 1950, and a minimum royalty of $1,000.00 per month, beginning with the month following the month in which it shall have completed the manufacture and sale of the first 200,000 mufflers, all of which minimum royalties are to be credited against and deducted from the general royalty account.

It appears to be logical and may save time to quote in full at this point two portions of the Second Contract from each of which one of the questions at issue between the parties, and which the arbitrators will find it necessary to

decide, is based. These are the paragraph numbered 10 and the first sentence and last two sentences of paragraph 12, which respectively read as follows:

> "10. Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automobile Engine Muffler, and will not, at any time, engage in any business competing therewith."

> "12. Automatic shall continue to use without charge under this agreement the tools, dies, machines and equipment heretofore furnished by Campbell, consisting of dies to make the following parts: end, centering, disk, cap, center tube and cone, paint spray booth, Buick auto engine, and extruding machine. * * * Automatic agrees to furnish such further tools, dies, machines and equipment as may be necessary to properly manufacture and ship the mufflers.

> "The Trust agrees to cooperate at all times in the manufacture and sale of the mufflers, and to give to Automatic the use of all drawings, blueprints, engineering data and 'know-how'."

By paragraph numbered 8, Automatic was given the right at any time to cancel the agreement and to be relieved from further liability thereunder upon six months' written notice, but with a reservation that such a cancellation should not be effective before February 1, 1951.

Paragraph 9 provided in substance that in the event of such cancellation and provided Automatic was not then in default, Automatic should continue to have an exclusive license to manufacture said mufflers and that the contract of August 26, 1949 (First Contract) should thereupon be "automatically reinstated" with Cork-A-Lite substituted in lieu of Campbell Industries, Inc., as if it had originally executed said contract as the licensor.

Another provision for cancellation involved in the present controversy appears at paragraph 19 and reads as follows:

> "19. Should the mufflers which are the subject matter of this agreement, when constructed in a workmanlike manner, in accordance with the said invention, fail to perform their functions to the satisfaction of the normal purchaser or purchasers, then Automatic may cancel this agreement, and be relieved from further liability thereunder, by serving a sixty (60) day written notice on the Trust to this effect."

Another pertinent provision of the Second Contract showing the intention of the parties as to the limited scope of their contractual rights and obligations is paragraph 25, which reads as follows:

> "25. This agreement shall inure to the benefit of, and bind, the respective parties, and their respective successors and assigns, and the parties agree that this is their entire contract, and that there are no other terms, conditions or obligations except as expressed herein. No waiver or modification of any of the terms and conditions of this agreement shall be binding unless in writing and executed with the same formalities as this agreement, and any waiver or modification as to any particular performance under this agreement shall not be deemed as a waiver or modification of any similar or future performance hereunder."

Finally, it may be appropriate to mention the paragraph numbered 24, which provides for arbitration of any disagreement or difference that may arise between the parties in relation to and under this contract and prescribes in detail how such arbitrators shall be appointed and the procedure to be followed to effectuate said arbitration.

By a letter dated July 31, 1951, addressed to Cork-A-Lite Development Trust, Automatic notified Cork-A-Lite that it claimed that both contracts above described had been breached by Cork-A-Lite in various particulars de-

tailed in that letter and that by reason thereof, Automatic had been damaged to an amount in excess of $20,000.00, for which it then made demand. Further by this letter, Automatic asserted that on or about January 1, 1951, it had notified Cork-A-Lite through Mr. Campbell "that both of the agreements had been breached and we thereupon terminated them because of your breaches of the same." Relative to the same subject, this letter further reads as follows:

> "Therefore, we hereby reiterate, in writing, the notice that we gave you at the first of this year that the agreements in question were terminated because of your breach of the same and your failure to perform."

In the alternative, this letter then gave 60 days' notice of cancellation of the agreement of January 30, 1950 (Second Contract) in accordance with paragraph 19 thereof, on the ground (as alleged) that the mufflers fail to function to the satisfaction of the normal purchaser or purchasers, and as a second alternative gave six months' notice of Automatic's election to have cancellation of said agreement in accordance with paragraph 8 thereof. A copy of this letter is hereto attached marked Exhibit A and reference is made to the same for further details of Automatic's claim.

HISTORY OF THE ARBITRATION.

By letter dated October 16, 1951, counsel for Cork-A-Lite replied to the letter referred to in the preceding paragraph and, after denying various claims thereof and asserting that all defaults were on the part of Automatic, formally requested that the controversy be arbitrated, as authorized by paragraph 24 of the Second Contract, and designated Mr. Bruce B. Krost as the arbitrator selected by Cork-A-Lite. By letter dated October 19, 1951, Automatic acknowledged receipt of the letter of October 16, and appointed Mr. James T. Hoffmann as the second arbitrator.

These two arbitrators and counsel for the respective parties met in conference on November 6, 1951, at which

time the arbitrators were informed in a general way as to the controversy and were given, for examination at their convenience, copies of the two contracts. Formal hearing was begun on February 7, 1952 and concluded on February 8, with both arbitrators present and counsel for the respective parties present and participating. Various witnesses testified orally and various exhibits were introduced in evidence, after which arguments were made by counsel for each side and the matter was submitted for decision.

In passing it should be noted that during the hearing on February 7, a question was raised as to whether Automatic would voluntarily return an extruding machine, dies and other equipment belonging to Cork-A-Lite which Automatic had been permitted to use under one of the provisions of the contract, or whether this question was to be decided by the arbitrators. Counsel for Automatic and the president of that company then agreed of record that in the event of an award in favor of Cork-A-Lite, this equipment would be returned promptly to Cork-A-Lite.

By letters dated February 18, 1952, the two arbitrators named above informed counsel for the respective parties that after due deliberation they had not been able to agree upon an award, after which by a letter dated February 21, 1952, these two arbitrators, in accordance with the applicable provisions of the Second Contract, selected and appointed Mr. Harrison W. Ewing as the third arbitrator and duly informed the respective parties of that appointment.

On March 6, 1952, the three arbitrators and counsel for the respective parties met by agreement for further hearing and re-argument. At the outset of this meeting, all exhibits were submitted to the last appointed arbitrator and by agreement oral statements were made by both counsel and by the original two arbitrators designed to inform the third arbitrator in a general way as to the substance of the evidence which had been received at the earlier hearings. This matter was then re-argued by counsel on that day, March 6, 1952 and further re-argument

was had on March 12, 1952, on which date the arbitrators requested that briefs be filed by both parties and fixed the dates for filing the same. Thereafter, at the request of the third arbitrator and by agreement of parties, the testimony which had been taken at the hearings of February 7 and 8, 1952, was transcribed, delivered to the third arbitrator and read by him, after which this transcript was made available to the other two arbitrators. Shortly thereafter, counsel for the respective parties successively filed briefs consisting of an initial brief on behalf of Automatic, a brief contra on behalf of Cork-A-Lite and a reply brief on behalf of Automatic.

CLAIMS OF THE PARTIES AND QUESTIONS FOR DECISION.

By its letter of July 31, 1951 and by the original argument of its counsel, Automatic claimed that it was entitled to terminate the contract of January 30, 1950 and had rescinded the same on or about January 1, 1951 by reason of various breaches of the contract on the part of Cork-A-Lite, particularly by Cork-A-Lite's failure to furnish proper working drawings, by its failure to furnish various enumerated items of equipment required to produce and insert the plastic parts of the mufflers, and by failure to furnish an adequate and efficient method for producing the plastic part of the mufflers.

By the final argument of its counsel and by the briefs in its behalf, the foregoing alleged ground for rescission was in effect abandoned, or at least modified, and in lieu thereof, Automatic finally asserted four claims which we quote from their brief as follows:

"(I) THE TRUST BREACHED THE EXPRESS WARRANTY CONTAINED IN ITEM 2 OF THE AGREEMENT.

(II) THERE WAS A MISTAKE OF FACT.

(III) THERE WAS A FAILURE OR WANT OF CONSIDERATION.

(IV) THE CONTRACT IS IN RESTRAINT OF TRADE AND IS ILLEGAL AND UNENFORCEABLE."

In connection with the foregoing claims numbered I, II, and III, Automatic claimed in argument and continues to claim by its final brief that it suffered damage by and through Cork-A-Lite's alleged breach of the contract in the sum of $21,886.16, and that it is entitled to an award against Cork-A-Lite for that amount.

Finally, by its letter of July 31, 1951, as well as by the arguments of its counsel and by the briefs filed in its behalf, Automatic claims in substance and effect that in the event of an adverse ruling by the arbitrators on the foregoing claims, it is entitled to have the contract of January 30, 1950 canceled as of September 30, 1951, under paragraph 19 of the contract on the ground that the mufflers which it manufactured, although manufactured in a workmanlike manner, did not function to the satisfaction of the normal purchaser or purchasers; and that in any event, and as a final alternative, that it is entitled to have said contract canceled and elects to have the same canceled under paragraph 8 of said contract (Second Contract).

By the arguments of its counsel and by its brief, Cork-A-Lite denies all of Automatic's foregoing claims except its claim of the right to have the contract canceled on six months' notice under paragraph 8 of the contract, and asserts that it is entitled to an award against Automatic in the sum of $7,000.00, or alternatively to an award of at least $5,000.00, if the arbitrators find that Automatic is entitled to have the contract canceled under paragraph 19 (Second Contract).

Automatic concedes by its brief that the amount of its liability upon cancellation of the contract under paragraph 8 would be $7,000.00, and alternatively, upon cancellation under paragraph 10, would be $5,000.00.

After all briefs had been filed and copies of the same delivered to each of the arbitrators, the three arbitrators held two meetings on different days and together reviewed and fully discussed the issues enumerated above and the evidence.

They hereby report that after due consideration of the evidence, arguments and briefs, they have been unable to

reach a unanimous agreement, but that, as permitted by the contract provisions for arbitration, the undersigned two arbitrators, being a majority, have agreed upon findings of fact, conclusions and an award as follows:

FINDINGS OF FACT.

(1) At or about the date when the First Contract was signed, Mr. Campbell delivered to Mr. Breckenridge (president of Automatic) a set of drawings (or possibly of blueprints of drawings) and stated that this was a complete set of working drawings showing all component parts of the muffler which Automatic was to manufacture for Campbell Industries, Inc. These drawings had been prepared by Mr. C. W. Demore who then had some arrangement with Mr. Campbell, and possibly with Cork-A-Lite, by which he was to share financially in the benefits to accrue from the exploitation of the Campbell Muffler, and were either the same drawings or prints, or facsimiles of the drawings or prints, which had been exhibited and used by Messrs. Campbell and Demore in the negotiations which led up to the execution of the First Contract.

(2) Also, at about the date of execution of the First Contract and in connection with its execution, Mr. Campbell, on behalf of Campbell Industries, had given to Automatic an order for the manufacture of six of the mufflers which were to be used as samples.

(3) Shortly after the execution of the First Contract, Mr. Campbell caused to be delivered at the Automatic plant an extruding machine which had been built by The Yoder Manufacturing Company on Mr. Campbell's order and in accordance with his ideas to be used in the production of the plastic portions of the mufflers, and also caused to be delivered there a Buick automobile engine and a paint spraying machine.

(4) At about the same time, Automatic began work upon the production of various production dies which had been ordered by Campbell Industries, Inc. under paragraph 2 of the First Contract, and upon the production of certain special tools required for its own use in manu-

facturing the metal portions of the mufflers. Before the execution of the Second Contract, Automatic had completed and billed Cork-A-Lite for production dies amounting, at agreed prices, to a total of $6,275.00, and apparently was far along with its tooling program.

(5) Also, shortly after the First Contract was executed, Automatic had purchased some small sheets of steel of the proper size and had manufactured "by hand" and with such tools as it already had more than enough parts to enable it to assemble the metallic parts of the six sample mufflers which Campbell had ordered. After the metallic parts of these six mufflers had thus been assembled, Mr. Campbell came into the Automatic plant, mixed a quantity of Cork-A-Lite with water—enough to produce a plastic mixture—and attempted by the use of his extruding machine to insert this mixture into the mufflers. He did not succeed in filling any of these mufflers properly by the use of this machine. The extruding machine did force a considerable amount of the mixture into the mufflers, but it did not completely fill the space which was designed to be filled with the mixture, it did not distribute the material evenly, and did not produce solidly compacted fillers, but on the contrary left numerous unfilled spaces and air-pockets. He eventually found it necessary to complete the fillers in these mufflers by manual processes, and did not succeed in filling more than one or two mufflers on any day. These experiments also indicated that the Cork-A-Lite mixture did not function uniformly in successive attempts on days of varying humidity, by reason of which Mr. Campbell repeatedly found it necessary to make changes in the water content of the mixture and various adjustments of the extruding machine.

(6) Mr. Foy, who had apparently been assigned by Automatic to cooperate with Mr. Campbell and to observe these early efforts to manufacture sample mufflers, personally observed the difficulties which were encountered in the use of the extruding machine, and Mr. Breckenridge either saw or was fully informed concerning the unsatisfactory results of these operations. By reason of this knowl-

edge on the part of these two officers of Automatic, and Campbell's status as a trustee of Cork-A-Lite, we find that at the date when the Second Contract wes executed, both parties already knew, and had known, that the extruding machine and the Cork-A-Lite mixture had not functioned satisfactorily nor as expected and that this method and treatment which Campbell had devised and suggested for filling the mufflers had not yet been proven to be efficient and practical for use in quantity or commercial production.

(7) At this stage of operations, Mr. Foy had noted that Campbell Industries, Inc. was having little, if any, success in securing orders for mufflers and discussion of this fact between him and Mr. Breckenridge led to Automatic's opening negotiations for a new contract under which Automatic would have the exclusive right and license under the patents to sell mufflers as well as to manufacture them. These negotiations culminated in the execution of the Second Contract, as stated earlier, on January 30, 1950.

(8) At the time when the Second Contract was made, the production dies that had been made up to that time, the paint spray booth, Buick automobile engine and extruding machine were all at Automatic's plant, and all these items remained available for its use throughout all later activities under the contract. Not long after this Second Contract was made, the evidence does not show exactly when, Automatic manufactured enough metal parts for the production of approximately one hundred mufflers, and with the assistance of Mr. Demore, who had in the meantime been employed by Automatic, renewed the attempts to fill some of these mufflers with Cork-A-Lite by the use of the extruding machine. Mr. Campbell also continued to visit the plant frequently, and fully cooperated, sometimes for several days at a time, in these activities, as requested by Automatic. Cork-A-Lite and Mr. Campbell gave full cooperation to Automatic and furnished to it all "know-how," technical information and drawings that were available.

(9) During this period a very few experimental mufflers were assembled, one at a time; the record does not show how many, but enough to install one each on cars of Messrs. Breckenridge, Foy and Demore, who tried them out for some time.

(10) By early summer of 1950, probably about the fore part of July, twelve mufflers were assembled. Mr. Campbell is said to have stated that these were as good as he could make and approved their being used to submit for test by a potential purchaser. Foy took two of these mufflers to the Ford Company's Lincoln Mercury plant which was then developing a new model of an automobile. After laboratory and road tests, extending through a period of two months, this company's engineers advised Automatic that the muffler did not meet the claims which had been made by Automatic for it and that the muffler was not satisfactory for use with their high compression engine and was not as adequate as the muffler they were then using on their low compression engine.

(11) Other mufflers from this batch of twelve were submitted for tests to New England Auto Parts, The Mack Truck Company, and one or two other companies whose names were not stated in the evidence. The evidence does not show what these tests were, nor what the results were, but in any event none of these companies bought any Campbell Mufflers.

(12) Shortly after Mr. Campbell had been informed of the result of the tests made by Lincoln engineers, he is said to have gone to Mr. Breckenridge and complained to him that they were not making the mufflers properly and not in accordance with the original drawings; that they should have been made with a filler of clover-leaf pattern as indicated by the patent drawings or the first drawings submitted to Automatic. It had, in fact, been expressly agreed by all parties before the First Contract was made that, in order to reduce the cost of production, the fillers should be made in cylindrical form with a cylindrical retainer, rather than as originally planned. Notwithstanding this fact and the fact that Mr. Campbell himself had par-

ticipated in making the mufflers with cylindrical fillers, which were sent to Lincoln engineers for test, Mr. Breckenridge agreed that some other sample mufflers should be made with fillers of clover-leaf shape. Mr. Campbell then ordered a new adapter or spout for the extruding machine and made up "about half a dozen" mufflers with the "clover-leaf insert" (filler).

(13) The extrusion process still failed to fill this batch of mufflers satisfactorily on a commercial standard and the evidence indicates that it took Mr. Campbell and Automatic two or three weeks to make and to fill the first muffler and about a month to complete this batch of six clover-leaf design mufflers. At about this time, Automatic stopped paying the monthly royalty, which had been paid up to and including November, 1950. When Mr. Campbell inquired why the payment for December had not been made, Mr. Breckenridge told him that they "did not intend to make any more." We believe it reasonable to assume that the present controversy began to take shape at about that time, since the evidence shows that on February 19, 1951 there was a meeting at the office of Automatic's counsel (Mr. H. K. Bell), at which there was discussion of a possible settlement, but so far as the evidence shows, no complete breaking off of relations between the parties. There was no unequivocal or definite step taken by Automatic or notice to Cork-A-Lite under the terms of the Second Contract to terminate until the letter of July 31, 1951 (Exhibit A).

(14) Some kind of continued interest was shown by Automatic in an arrangement made by it in which some of the last batch of mufflers, having the clover-leaf fillers, were taken or sent by Automatic during March, 1951 to the McKenzie Company of Youngstown, Ohio, a substantial manufacturer and distributor of automobile mufflers, and tested by them in competition with mufflers of three types, which the McKenzie Company was then making or handling, for comparison as to noise level (decibel rating), back pressure and shell temperature. The McKenzie Company's report on these tests is shown in detail in the tran-

script of evidence and may be fairly summarized by saying that as to back pressure and shell temperature the Campbell Muffler was fairly comparable with, and in some instances superior to one or another of the McKenzie mufflers, but that its noise level was the highest among the four types of mufflers tested.

(15) The mufflers thus tested by the McKenzie Company, as well as those tested earlier by the engineers of the Ford Company's Lincoln Motor Car Division, were actually constructed in workmanlike manner, having metal parts which had been made and assembled in full compliance with the working drawings furnished by Cork-A-Lite and fillers which had been completed and solidly compacted by Mr. Campbell or under his supervision. These mufflers were in our opinion entirely adequate to permit a fair test of their performance and functioning or to be exhibited as samples to prospective purchasers.

(16) The evidence does not show any further operations of the parties under the Second Contract from the end of the test by the McKenzie Company until the transmittal of Automatic's letter of July 31, 1951, which led to this arbitration proceeding, being the first written and definite declaration of Automatic's decision to forego its license and to terminate the Second Contract.

CONCLUSIONS.

I. (a) The evidence does not establish a breach, as claimed, of the warranty contained in paragraph 2 of the Second Contract (contract of January 30, 1950). In our opinion, all that this paragraph contains is a warranty of title or ownership of the right to manufacture and sell the Campbell Muffler and adapter and attachments for the same, and formulas and methods for making Cork-A-Lite plastic insulation and extruding the same into the mufflers. It is not a warranty of the efficiency of the method or of the quality or fitness of the material or extruding machine to accomplish any particular result.

(b) We do not agree with the contentions of Automatic that there is a warranty either express or implied in paragraph 3 of the contract, nor that the "claims" made

in the patent application or patents are representations or warranties on the part of Cork-A-Lite under the Second Contract.

(c) In our opinion, the evidence does not establish a breach of the contract, as claimed in the earlier arguments of Automatic, by failure on the part of Cork-A-Lite to furnish proper drawings and various items of equipment. On the contrary, we believe that the evidence affirmatively shows that Cork-A-Lite furnished everything which the Second Contract required. In particular, there was no default by Cork-A-Lite under paragraph 12 nor any other paragraph of the Second Contract.

In this connection, we hold that there is no uncertainty nor ambiguity in the requirements of the Second Contract and that the requirements or obligations of Cork-A-Lite cannot lawfully be enlarged by construction nor by reference to the First Contract.

II. In our opinion, the evidence does not establish that the contract was made under mistake of material fact, either on the part of both parties or on the part of Automatic only. On the contrary, we believe the evidence affirmatively shows that when this Second Contract was made, both parties fully knew that the mixture, the extruding machine, and the extrusion process (method) had not functioned sufficiently to permit the manufacture of mufflers in practicable or commercial quantity and that the question whether it would ever be practicable to use these instrumentalities, mixture and extrusion method in quantity or commercial production was highly speculative, and recognized as such by all parties although all had great hopes of success.

III. The claim of failure of consideration is based upon assumptions that the contract contains (a) one or more express warranties, (b) language from which a warranty should be implied, or (c) representations, as to the efficiency and practicability of the Cork-A-Lite mixture and of the machine and method for extruding this material into the mufflers.

In accordance with our earlier finding that the contract evidences no such warranty or representation, we

now find that the evidence does not show failure of consideration.

IV. The contract of January 30, 1950 (Second Contract) is not in restraint of trade, is not illegal and is not unenforceable. Automatic totally failed to mention or suggest to the arbitrators the issue as to the alleged illegality of the contract as being in restraint in any argument, hearing or paper until it filed its brief with the arbitrators on May 7, 1952. Prior to that time, that issue had never been presented to the arbitrators by Automatic, notwithstanding the earlier urgent request made of the parties to present in writing all the issues for arbitration. In the lists of questions or issues presented to the arbitrators by the parties in compliance with this request, there was not included this issue as to alleged illegality of the contract for restraint of trade. In our opinion, this issue was not seasonably presented for inclusion in the arbitration.

Nevertheless, and notwithstanding the tardy raising of the issue, we have considered the issue as raised and the decisions and arguments presented by the parties thereon. We find and hold that under the applicable law, the contract of January 30, 1950 is not in restraint of trade, is not illegal and is not unenforceable. Under the facts found here and the law governing this contract and the parties, the said contract of January 30, 1950 is valid, legal and enforceable.

V. We conclude that the meaning of the phrase "normal purchaser or purchasers" in paragraph 19 of the contract is not limited to actual purchasers but by fair and reasonable construction includes bona fide prospective purchasers who have shown a definite interest in the mufflers and might reasonably be expected to purchase, if the mufflers performed satisfactorily. Under this construction of this paragraph, we find that the mufflers which were tested respectively by the Ford-Lincoln engineers and by the McKenzie Company failed to function to the satisfaction of normal purchasers and that by reason thereof, Automatic is entitled to have the contract of January 30, 1950 canceled and rescinded as of September 30, 1951,

and to be relieved from further liability thereon from and after that date.

VI. In accordance with conclusions above, we find that Automatic is not entitled to an award of damages against Cork-A-Lite for the amount claimed nor for any amount, and with respect to such claim find in favor of Cork-A-Lite.

VII. In the conclusion of its brief, Cork-A-Lite asserts that it has claims against Automatic for $2,670.00, allegedly paid for a die which was never manufactured and $200.00 allegedly overpaid on its purchase of certain dies. These claims apparently arise under the First Contract or purchase orders prior to the First Contract, were not included in the statements by counsel as to the matters presented for hearing in this arbitration, and were actually not heard upon evidence. We accordingly make no finding upon these claims totaling $2,780.00.

In accordance with the foregoing findings and conclusions, the undersigned arbitrators have made the following award:

> Automatic Die and Products Company shall pay forthwith the sum of Five Thousand Dollars ($5,000.00) to the Cork-A-Lite Development Trust, and shall forthwith surrender to said Cork-A-Lite Development Trust the property (extruding machine, Buick automobile engine, paint spray booth, and dies to make the following muffler parts: end, center ring, disc, cap, center tube and cone), belonging to said Cork-A-Lite Development Trust now in the possession of said Automatic Die and Products Company. The said contract of January 30, 1950 is terminated as of September 30, 1951 under the provisions of paragraph 19 of said contract and contractual relations between the parties are terminated.

HARRISON W. EWING,
BRUCE B. KROST.

Cleveland, Cuyahoga County, Ohio,
July 28, 1952.

EXHIBIT A.

July 31, 1951

Cork-A-Lite Development Trust,
1090 Union Commerce Building,
Cleveland 14, Ohio.

Attention Mr. Philmore J. Haber and
Mr. John M. Campbell, Trustees.

Gentlemen:

On August 26, 1949 The Automatic Die & Products Co. entered into an agreement with Campbell Industries, Inc., to which you were a signatory party. Under this agreement Campbell Industries, Inc. agreed to furnish, in Item 2 thereof, working drawings of the Campbell Super Silent Automobile Engine Muffler and all of the component parts thereof, showing the design and complete specifications of the same. Mr. Campbell did furnish such working drawings to us, but late in the fall of 1950 he advised us that they were the wrong working drawings. Consequently, although we had been working on the muffler for approximately a year, we were suddenly informed that we had been working upon the wrong design.

Also, in Item 3 of said agreement of August 26, 1949, Campbell Industries, Inc. agreed to supply and furnish, at its expense, subject to our approval, the following equipment, towit:

> Cork-A-Lite extruding machine, adapter for extruder for filling mufflers, adapter for forming and producing Cork-A-Lite donut ring, saw or slicing machine, dry Cork-A-Lite cone filler, and seaming machine, paint spray booth and accessories, conveyor trucks for the drying oven, powder mixer, dry plastic mixer, wet plastic mixer, scales, measuring containers, and all other necessary equipment to efficiently produce the plastic parts of said muffler.

All that Campbell Industries, Inc. ever furnished of the foregoing which was approved by us was a spray booth and an adapter for forming and producing Cork-A-Lite

donut rings. While it did, in addition, supply a Cork-A-Lite extruding machine the same was never approved by us and Mr. Campbell has never been able to get it to work satisfactorily.

On January 30, 1950 we entered into an agreement directly with you as to the Campbell Super Silent Automobile Engine Muffler, Mr. Campbell having decided to dissolve Campbell Industries, Inc., and from February 1950 through November 1950 we paid a minimum royalty of $500.00 per month, or a total of $5,000.00. Nevertheless, you failed to provide us with the following items which you were obliged to supply and furnish, towit:

> Adapter for extruder for filling mufflers, donut ring saw or slicing machine, dry Cork-A-Lite cone filler, and seaming machine, paint spray booth accessories, conveyor trucks for the drying oven, powder mixer, dry plastic mixer, wet plastic mixer, scales, measuring containers, and all other necessary equipment to efficiently produce the plastic parts of said muffler.

A Cork-A-Lite extruding machine was furnished, but it has never been satisfactory and has never received our approval. Mr. Campbell was obliged to see that the plastic portion of the muffler could be properly produced and extruded into the muffler by the equipment you were to furnish. This he has been unable to do.

When Mr. Campbell advised us late in the fall of 1950 that the working drawings he had furnished us were for the wrong design and that we had spent approximately a year working on the wrong design, we stopped paying the minimum royalty in view of this and also in view of your failure to supply the necessary equipment to properly extrude the Cork-A-Lite into the muffler.

Being unable to work out any satisfactory arrangement with you through Mr. Campbell on or about January 1, 1951, we notified you, through Mr. Campbell, that both of the agreements had been breached and we thereupon terminated them because of your breaches of the same. Because of your breaches of contract we have been dam-

aged to an amount in excess of $20,000.00, demand for which is hereby made.

Subsequently we have negotiated with you for a settlement of the entire matter, but as a result of our last conference of July 27, 1951, it would appear that we will be unable to reach any settlement. Therefore, we hereby reiterate, in writing, the notice that we gave you at the first of this year that the agreements in question were terminated because of your breach of the same and your failure to perform.

In any event, and in the alternative, we hereby give you sixty days' written notice of the cancellation of said agreement of January 30, 1950, in accordance with Item 19 thereof, for the reason that the mufflers which are the subject matter of said agreement, when constructed in a workmanlike manner, in accordance with the said invention, fail to perform their functions to the satisfaction of the normal purchaser or purchasers and, accordingly, we will be relieved from further liability thereunder.

In any event, and in the alternative, we hereby give you six months' written notice of cancellation of said agreement of January 30, 1950, in accordance with Item 8 thereof and, accordingly, we will be relieved from further responsibility thereunder and from further minimum royalty payments.

Kindly be governed accordingly.

We are sending copies of this letter directly to the two Trustees, Mr. Campbell and Mr. Haber.

Very truly yours,

THE AUTOMATIC DIE & PRODUCTS CO.
By R. W. BRECKENRIDGE (Sgd.)
President

HKB: gs

cc Mr. John M. Campbell
3776 East 153rd Street
Cleveland, Ohio
Mr. Philmore J. Haber
3021 Courtland Blvd.
Shaker Heights, Ohio

SUPPLEMENTAL REPORT OF ARBITRATION.
(Defendant's Exhibit 2.)

In Re Arbitration Between the Automatic Die & Products Corporation and Cork-A-Lite Development Trust.

This report is intended to supplement and in certain particulars to modify the "Report of Arbitrators with Findings of Fact, Conclusions and Award" made and issued in multiple copies on and as of July 28, 1952 by two arbitrators (Messrs. Harrison W. Ewing and Bruce B. Krost), being a majority of the board of arbitrators heretofore duly selected in this matter, and delivered to and received by counsel for the respective parties on or about July 29, 1952.

On July 31, 1952 the two arbitrators above mentioned respectively received by mail from their associate arbitrator, Mr. James T. Hoffmann, letters of identical language dated July 30, 1952 and addressed to them jointly in which Mr. Hoffmann stated in substance that he desired to make of record the fact that he had not been consulted by the arbitrators who joined in the above-mentioned award between the date of a conference of all three arbitrators on June 3, 1952 and the delivery to him personally on July 28, 1952 of a signed copy of the "Report, etc., and Award" referred to in Mr. Krost's letter to Mr. Bell and Mr. Kaufman on July 29, 1952, and that at the time of the conference of arbitrators on June 3, 1952 (mentioned above), it was his definite understanding that a majority of the arbitrators had tentatively agreed on a disposition of the arbitration which would leave both parties where they were, or are, except for the delivery by Automatic to Cork-A-Lite of "certain tools, etc." (presumably meaning certain other chattel property).

Counsel for both parties will, of course, recall that carbon duplicates of the letter just referred to were at or about the date of that letter mailed to them and presumably received by them at about the date when the originals reached the addressees. Counsel will, of course, also recall that shortly after their receipt of copies of Mr. Hoffmann's

letter, they (Messrs. Harold K. Bell and David A. Kaufman) were informed by Mr. Krost by telephone that by reason of the statements of Mr. Hoffmann's letter, the other two arbitrators had agreed to arrange and intended to arrange for another meeting of all arbitrators at the earliest date found to be mutually convenient and desired that pending such meeting and further consideration of their report, the award of July 28, 1952 should be held in abeyance.

In accordance with this promise, another meeting of all three arbitrators was held on August 13, 1952 at which counsel for the respective parties (Messrs. Bell and Kaufman) were present. At this meeting, the arbitrators agreed that the Report, Findings and Award of July 28, 1952 be reviewed and discussed by the full board of arbitrators. At Mr. Bell's request he was given an opportunity to file a supplemental brief as to his claim that the provision of the contract of the parties forbidding Automatic Die & Products Company to manufacture or sell any muffler other than the Campbell muffler was against public policy and rendered the entire contract void and unenforceable.

Such a brief was submitted about August 28, 1952 and the cases therein cited and contentions therein made have been carefully examined, but owing to successive absences from the city of each of the arbitrators, it has not been practicable, until a recent date, to have a further meeting of the board of arbitrators.

However, a further and final meeting of said board with all three abritrators present was held on October 24, 1952 at which the proceedings had and evidence submitted in this arbitration and the various claims of the parties, including the claims made in said last filed brief, have been reviewed and discussed at length and given careful consideration.

It having appeared at the end of such reconsideration that the arbitrators were still unable to reach a unanimous agreement, the undersigned, being a majority of said three arbitrators, hereby make the following supplemental find-

ings and conclusions, in which, in harmony with the original report the parties will be referred to as "Automatic" and "Cork-A-Lite":

SUPPLEMENTAL FINDINGS AND CONCLUSIONS.

(1) The first step which led to this arbitration was the transmittal by Automatic to Cork-A-Lite of a letter dated July 31, 1951, in which Automatic asserted (a) that both contracts between the parties referred to in our original report had been breached by Cork-A-Lite in various particulars; (b) that by reason of these breaches of contract Automatic had suffered damage in excess of $20,000, for which demand was thereby made; and (c) that in the alternative, it thereby gave notice of its election to have the contract of January 30, 1950 cancelled in accordance with item 19 thereof, and as a second alternative gave notice of its election to have said contract cancelled in accordance with item 8 of said contract. (A copy of this letter, identified as Exhibit A, is attached to our original report and is made an exhibit to this supplemental report by reference as fully as if hereto attached).

(2) Cork-A-Lite replied to the letter referred to in the preceding finding on October 16, 1951 and by such reply, after denying Automatic's various claims of breach and asserting that all defaults were on the part of Automatic, formally requested that the claims made by Automatic in that letter should be referred to arbitration, as provided by paragraph 24 of the contract of January 30, 1950, and designated Mr. Bruce Krost as the arbitrator of its choice.

(3) Automatic acknowledged receipt of this letter by a letter dated October 19, 1951, and by this letter designated Mr. James T. Hoffmann as the arbitrator chosen by it.

(4) After a preliminary meeting on November 6, 1951, at which the two arbitrators were informed in a general way of the subject matter of the controversy, and

given copies of the two contracts to be studied at their convenience for their further information, the first formal hearing of the arbitration began on February 7, 1952. At the outset of this hearing, as shown by the transcript of evidence and proceedings (pages 3-51), Mr. Bell, as counsel for Automatic, stated the various claims of Automatic in substantial accord with Automatic's letter of July 31, 1951 (that is, as a claim for damages in excess of $20,000 for various alleged breaches of contract and alternatively, as alternative demands for cancellation of the contract in accordance with the respective provisions of items 19 and 8 of the contract of January 30, 1950). Mr. Kaufman stated the claims of Cork-A-Lite (transcript pages 10-11, inclusive, and pages 27-51, inclusive), as claims for accrued royalties totaling either $7,000 or $5,000 (dependent upon which provision for cancellation should be found by the arbitrators to be applicable) and for return of certain tools, dies and other chattel property, which Cork-A-Lite had entrusted to Automatic as provided in the respective contracts.

(5) Counsel for Automatic then submitted evidence (transcript pages 52-244, inclusive) tending prima facie to show various breaches of contract by Cork-A-Lite, that Automatic had sustained damage by reason of these alleged breaches of contract totalling $21,886.16, and that the mufflers had not operated to the satisfaction of a normal purchaser, that is, evidence tending prima facie to support Automatic's alternative claim of right to cancellation of the second contract as of September 30, 1951.

(6) At the end of this hearing, which extended through February 7, 1952, and was concluded on February 8, 1952, counsel for the respective parties made oral arguments and submitted this matter to the two arbitrators then serving for decision. The argument of counsel for Automatic was directed exclusively to the claims made in Automatic's letter of July 31, 1951 and in the opening statement of counsel, to-wit: that Cork-A-Lite had breached the second contract in various particulars; that

Automatic had thereby suffered damage in the amount shown by the evidence and was entitled to an award of that amount as damages; and in the alternative, that Automatic was entitled in any event to cancel the second contract as of September 30, 1951 under authority of paragraph 19 of that contract, and that the award made against it should in no event exceed $5,000. No claim was then made that the contract was in restraint of trade and therefore void and unenforceable.

(7) Upon the failure of the arbitrators to agree, as shown by our original report, the two arbitrators then serving appointed a third arbitrator, as provided by the contract, and notified the respective parties of said appointment. A formal meeting of the enlarged board of arbitrators was then called and held on March 6, 1952. At this meeting counsel for the respective parties restated their respective claims substantially as they had been stated at the hearing of February 7 and 8, 1952. In the course of these statements counsel for each party stated, as he had stated in the statements at the beginning of the hearing of February 7 and 8, that in any event, and no matter what the finding of the arbitrators might be on the matters in dispute, his client did not desire reinstatement of the first contract and desired the arbitrators to disregard the provision in the second contract for reinstatement of the first contract. No claim was then made by counsel for Automatic that the second contract of the parties was against public policy and therefore wholly void and unenforceable.

At the suggestion of the newly appointed arbitrator and with the concurrence of the two arbitrators who had been appointed earlier, counsel for the parties were requested to prepare and join in a written statement defining clearly the issues of law and fact involved in this arbitration and the questions to be decided by the arbitrators. Further hearing was then postponed to March 12, 1952 to permit such statement of the matters in issue to be prepared and for rearg ument of the controversy.

(8) The board of arbitrators and counsel met again as agreed on March 12, 1952. The arbitrators were then informed that counsel had not agreed upon a written statement of the issues to be determined, but that counsel on each side had prepared a list of the questions which he believed were presented for determination. Counsel for Automatic then submitted a list of 58 questions entitled "QUESTIONS PRESENTING THE ULTIMATE ISSUES TO BE DECIDED IN THE ARBITRATION" and later submitted a list of 17 questions entitled "ULTIMATE ISSUES TO BE DECIDED BY THE ARBITRATORS." Copies of these two lists of questions are attached to this report marked respectively, Exhibit B and Exhibit C.

Counsel for Cork-A-Lite similarly submitted two lists of questions, the first entitled "STATEMENTS OF ISSUES IN THE ARBITRATION PROCEEDINGS BETWEEN CORK-A-LITE DEVELOPMENT TRUST AND THE AUTOMATIC DIE & PRODUCTS COMPANY" and the second entitled "POINTS OF CONTROVERSY BETWEEN THE CORK-A-LITE DEVELOPMENT TRUST AND THE AUTOMATIC DIE & PRODUCTS COMPANY." Copies of these two documents are attached to this report marked respectively, Exhibit D and Exhibit E.

Oral arguments were then made by respective counsel pertinent to various questions presented by these respective four sets of questions. No claim was made in these arguments that the principal contract in issue was against public policy or unenforceable and it will be noted that no such contention was suggested in either or any of the above mentioned statements of questions to be considered by the arbitrators.

(9) After submission of the controversy at the end of these oral arguments, the arbitrators requested counsel on both sides to file written briefs in support of their respective claims. In compliance with this request, there were filed a brief by Automatic, a brief contra by Cork-A-Lite and a reply brief by Automatic. By its primary brief, dated May 7, 1952, following contentions (1) that the contract contained a warranty which had been

breached by the Cork-A-Lite; (2) that the contract was made under mutual mistake of material fact; and (3) that there was a failure or want of consideration, Automatic, for the first time presented, as the IVth and final heading of its brief, a claim that "The contract is in restraint of trade and is illegal and unenforceable."

(10) The supplemental brief submitted by counsel for Automatic on or about August 27, 1952, is in its entirety merely an amplification of the claim thus made as paragraph IV of its original brief that the contract is in restraint of trade.

(11) In reliance upon the action of Automatic in joining in these arbitration proceedings, Cork-A-Lite expressly agreed to pay one-half of the fees of arbitrators herein at $150 per day for each arbitrator, thereby incurring a liability of many hundreds of dollars; also incurred further liability of many hundreds of dollars, the exact amount of which cannot yet be determined, for the services of its counsel in conducting the arbitration proceedings: also incurred substantial liability for services of stenographers who recorded the evidence and proceedings at all hearings herein.

Upon consideration of the foregoing findings of fact, the undersigned arbitrators hereby make the following additional conclusions of law:

I. By its letter of July 31, 1951, to Cork-A-Lite, stating its various claims of fact and the relief to which it claimed to be entitled, by its letter of October 19, 1951, concurring in Cork-A-Lite's demand for arbitration of the claims thus made and appointing the second arbitrator, by the various oral statements made in its behalf by its counsel of the claims which Automatic desired the arbitrators to consider, by its statement in writing at the request of the arbitrators of the questions which it claimed were presented for decision by the arbitrators and by its submission of this matter on evidence and in argument as a claim for damages for breach of the contract and alternatively

as a demand for cancellation of the contract by authority of provisions for cancellation contained in the contract of January 30, 1951, Automatic Die & Products made an election of remedies and thereby elected to treat the contract of January 30, 1951 as valid and enforceable.

II. By its election to participate, and by its participation in arbitration under the contract and in accordance with the contract, Automatic not only waived whatever right it might have had to disaffirm or repudiate the contract of January 30, 1951 and to challenge its validity, but impliedly asserted and conceded the validity of the contract.

III. By its election of remedies, as set forth in Conclusion No. I, and by its waiver as set forth in Conclusion No. II, and further by reason of the liabilities incurred by Cork-A-Lite through reliance upon said election and upon said waiver, Automatic became and has ever since been estopped to assert that said contract of January 30, 1951 is void, illegal, against public policy, and unenforceable.

IV. The belated claim made by Automatic in its brief that the contract is against public policy and unenforceable is completely inconsistent with and irreconcilable with the position which it took at the outset of this arbitration and maintained throughout the hearing and oral arguments of counsel, and by the well-established principle of jurisprudence that a claimant in any judicial proceeding should be precluded from taking and maintaining two inconsistent positions, Automatic after asserting rights under the contract, is precluded from claiming that the contract is against public policy and void.

V. From these conclusions, it follows that the arbitrators not only owed no duty to consider, but were not and are not now at liberty to consider the claims made by Automatic in successive briefs, including the supplemental brief recently filed, that para-

graph 10 of the contract of January 30, 1951 is against public policy and makes the entire contract void and unenforceable.

In conformity with the foregoing findings and conclusions, the undersigned arbitrators hereby amend their original report, findings and conclusions by withdrawing and striking therefrom in its entirety Conclusion No. IV.

As thus amended, the findings and conclusions of said original report are hereby adopted, reaffirmed and made part of this supplemental report as fully as if herein set forth in full—

Upon due consideration of the findings of fact and conclusions of said original report, as above amended, and of the findings of fact and conclusions shown by this supplemental report, the undersigned arbitrators hereby make the following award; to wit:

> The Automatic Die & Products Company shall pay forthwith to the Cork-A-Lite Development Trust the sum of Five Thousand Dollars ($5000.00), and shall forthwith surrender to said Cork-A-Lite Development Trust the chattel property tools and equipment now in possession of said Automatic Die & Products Company, belonging to said Trust, to wit: (Extruding machine, Buick automobile engine, paint spray booth, and dies to make the following muffler parts: end, center ring, disc, cap, center tube and cone.)

The said contract of January 30, 1950 is hereby terminated as of September 30, 1951 under the provisions of paragraph 19 of said contract.

In accordance with the oral stipulation made in behalf of the respective parties by their counsel during the hearing of this arbitration, the contract of August 26, 1949 is hereby adjudged to be abrogated and terminated by agreement of the parties.

HARRISON W. EWING
BRUCE B. KROST

Cleveland, Cuyahoga County, Ohio
December 19, 1952.

DISSENTING REPORT OF JAMES T. HOFFMANN. (Defendant's Exhibit 3.)

In Re Arbitration Between The Automatic Die & Products Corporation and Cork-A-Lite Development Trust

The Report, Supplemental Report, and Award made by my associate arbitrators cannot be concurred in. The Second Contract is against public policy, unlawful and unenforceable—

(a) as being in direct violation of the Clayton Act which specifically provides that "It shall be unlawful for any person * * * make a * * * contract for sale of goods * * * whether patented or unpatented, * * * on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other, commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce." (U. S. Code, Title 15, § 14); and

(b) as being an unlawful extension of the patent monopoly enjoyed by Cork-A-Lite by virtue of its ownership or control of the Campbell patents enumerated in Paragraph One of the Second Contract.

The Second Contract, Paragraph 10, provides, in part, as follows:

> "Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automobile Engine Muffler, and will not, at any time, engage in any business competing therewith."

This provision specifically prevents Automatic from dealing in mufflers which might be competitive with the "Campbell Super Silent Automobile Engine Muffler."

In the present instance, no actual restraint was effected. The language of the Clayton Act, however, is: "where the effect may be to *substantially* lessen competi-

tion or *tend* to create a monopoly" (emphasis added) but the U. S. Supreme Court in the case of *Standard Oil of California vs. United States,* 337 U. S. 293; 69 S. Ct. 1051; L. Ed. ____, stated as follows:

> "evidence that competitive activity has not actually declined is inconclusive. Standard's use of *the contracts creates* just such *a potential clog on competition* as it was the purpose of § 3 to remove wherever, were it to become actual, it would impede a substantial amount of competitive activity." (p. 2062.) (Emphasis added.)

Paragraph 5 of the contract refers to "the next 1,800,000 mufflers, and four and one-half per cent (4½%) on all mufflers sold thereafter." Surely a contract which refers to automobile mufflers in terms of millions contemplates substantial commerce.

By restricting Automatic's activities in the muffler field to the "Campbell Super Silent Automobile Engine Muffler," Cork-A-Lite effected a restraint upon the manufacture and sale of other mufflers; that is, mufflers not included within the patent grant. That this is against public policy and unlawful is so well established as, in my opinion, to be no longer open to any question nor do I understand that my associate arbitrators question this principle. It is noted that by the Supplemental Report, the previous holding of my associate arbitrators to the contrary, in "Conclusion No. IV" is withdrawn.

To me this is a concession on their part that the contract under which they are making an award is unlawful.

As for authorities see the following cases: *Park-In Theatres vs. Paramount-Richards Theatres,* 81 Fed. Supp. 466, decided in the District Court of Delaware on December 8, 1948, affirmed by a per curiam opinion of the Third Circuit Court of Appeals on December 3, 1950, 185 Fed. (2nd) 407, certiorari denied June 4, 1951, 341 U. S. 950, 95 L. Ed. 1373; *McCullough vs. Kamerer,* 166 Fed. (2d) 759, decided by the 9th Circuit Court of Appeals on February 26, 1948, certiorari denied, 335 U. S. 813, 93 L. Ed. 368; *National Lockwasher vs. Garrett,* 137 Fed. (2nd) 255,

decided by the Third Circuit Court of Appeals on July 13, 1943.

As I understand the actions of my associate arbitrators, it is the consensus of the opinion of the majority of the arbitrators that the "equities" of the situation are with Automatic but that they are making an award to Cork-A-Lite because they feel bound to do so by certain technicalities of contract law. If this is the situation, they are disregarding another and controlling technicality; that is, the unlawfulness of the contract, which requires no award to either party. They overcome this question of unlawfulness by what I consider misinterpretation of other technicalities of a procedural nature, see particularly paragraph 11 of the Supplemental Report and especially subparagraphs 1, 2 and 3. In my opinion the law is well established that in the case of an invalid contract there can be no "election of remedies," "conceded * * * validity" or "estopped to assert."

As for "election of remedies," it is elementary that there must be two valid remedies from which to choose before a binding election can be made. As for "conceded * * * validity," the present case is not one of a voidable contract where an "election of remedies," that is, reliance on the contract, constitutes a confirmation, making the contract binding. The same applies to "estoppel." The contract is either unlawful or it is lawful and, if unlawful, no election of remedies, concession of validity or estoppel can make it lawful and enforceable.

As for sub-paragraph 4 of paragraph 11 of the Supplemental Report, there are no restrictions in this day and age against asserting inconsistent positions in a legal proceeding, see Federal Rules of Civil Procedure, Rule 8(e)(2) which reads, in part, as follows:

> "A party may also state as many separate claims or defenses as he has regardless of consistency."

As for the timeliness of raising the defense of illegality, which appears to be the deciding issue in the present instance, in my opinion, the case of *McCullough vs. Kamerer*, 323 U. S. 327, 65 S. Ct. 297, 89 L. Ed. 273 is controlling.

In this case the Supreme Court of the United States said in part, as follows:

> "*the answer made no mention of the restrictions contained in the license agreement.* The District Court made no findings of fact or law with respect to them. *On appeal* to the Circuit Court of Appeals petitioner assigned *no error with reference to them* and the Circuit Court of Appeals did not consider them, * * *
>
> "Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below." (Emphasis added.) (p. 298.) (65 S. Ct. 297.)

The writ of certiorari was dismissed and the Circuit Court of Appeals remanded the case to the District Court with authority to "take such action as it may determine" concerning the issue of unlawfulness.

When the Supreme Court of the United States allows the defense of unlawfulness of a contract to be raised after decision by a Circuit Court of Appeals, I cannot go along with my associate arbitrators and now say that Automatic is estopped, under the present circumstance, to assert the defense of unlawfulness and that the arbitrators are "not now at liberty to consider the claim" where the question was raised by Automatic before decision by the arbitrators.

Aside from the question of the unlawfulness of the contract, in my opinion, neither party should be awarded any recovery against the other on grounds which I will call, for want of a better term, "the laws of natural justice" or "the equities"; and bearing in mind that I am of the opinion that questions submitted for or to arbitration should not be decided on technical legal principles.

The contracts of August 26, 1949 and July 30, 1950 are inseparable. The Second Contract is ambiguous without the First Contract; for example, what is the "Campbell Super Silent Automobile Engine Muffler" of the Second Contract except the "Campbell Super Silent Automobile Engine Muffler" of the First Contract; that is, the muffler shown in certain drawings referred to in paragraph 2 of the

first contract, which drawings were introduced into the present proceedings as Exhibits 1 to 12.

The undertakings of the respective parties were in the nature of a joint enterprise, Mr. Campbell, a plastic expert, and Automatic, metal working experts. Mr. Campbell relied upon Automatic to supply the metal working technique and know-how and Automatic relied upon Mr. Campbell to supply the plastic technique and know-how.

The venture failed because Mr. Campbell's extruding machine would not work to extrude Mr. Campbell's plastic material as contemplated by both parties. Automatic never interfered with Mr. Campbell's activities as to the "plastic" aspect of the venture and Mr. Campbell accepted responsibility for the "plastic" aspect without question or protest.

Why should Automatic now be further penalized for failure of the "plastic" aspect or end of the venture. If Mr. Campbell honestly believed that his extruding machine and his patented plastic material would perform, as represented by him to Automatic at the time the negotiations were entered into, there was a mutual mistake of fact, somewhat similar to that in the cases where parties enter into a contract for mining operations and subsequently discover that they made a mutual mistake as to presence or quantity of mineral; for example, the case of *Edwards v. T. B. V. R. Co.*, 54 Tex. App. 334, 118 S. W. 572, wherein the Court said:

> "If it had developed that in fact 'gravel overlaid by a deposit of sand clay' did not exist at all on the land, we think it could not be questioned that appellee should be held excused from the obligation to take it out and pay for it, even if it had been guilty of negligence in failing to discover this fact before making the contract. Or if it had been discovered that, while some of the material existed, yet there was only a limited quantity, and not as much as under the contract appellee was required to remove, it would have been entitled to be relieved of the obligation pro tanto. *It*

could not be denied that this would have been a mistake as to the subject-matter, going to the very essence of the contract. This might be placed on the ground of mutual mistake, or, if the appellants knew of this nonexistence of the subject-matter of the contract, it would have been a fraud on their part to take advantage of appellee's ignorance, as to such a matter. Bishop on Contracts, sec. 588, 9 *Cyc.* 399."

The record clearly shows that in the present instance both Mr. Campbell and Automatic worked diligently to make the venture a success. The record also shows that Automatic spent some $20,000.00 in the venture and Campbell, I believe, some $6,000.00 which, I presume, is in addition to his time.

Perhaps, the non-existence of the subject matter of the contracts; that is, a practical or commercial "Campbell Super Silent Automobile Engine Muffler" should be termed failure of consideration, but to me this being an arbitration proceeding and having in my views as to the formality of such proceedings, the name by which it is called is immaterial.

CONCLUSION.

The Second Contract is unlawful.

The venture failed because of the failure of the "plastic" aspect, which was the responsibility of Mr. Campbell and Cork-A-Lite.

Regardless of whether the matter is disposed of on strictly "legal" or "equitable" principles, neither party should recover against the other.

JAMES T. HOFFMANN /s/
James T. Hoffmann

Cleveland, Cuyahoga County,
Ohio, December 19th, 1952.

SEPARATE CONCURRING OPINION.
(Defendant's Exhibit 4.)

In Re Arbitration Between

The Automatic Die & Products Company
and
Cork-A-Lite Development Trust.

To: Mr. Harold K. Bell
and
Mr. David A. Kaufman.

By a Supplemental Report and Award dated December 19, 1952 and signed by Harrison W. Ewing and Bruce B. Krost, there was affirmed, adopted and ratified the "Report of Arbitrators, With Findings of Fact, Conclusions and Award" dated July 28, 1952, deleting therefrom only Conclusion No. IV relative to the legality of the arbitrated agreement of January 30, 1951 for the reasons set forth in detail in said Supplemental Report and Award.

I concur with that Supplemental Report and Award as evidenced by my signature thereon. However, inasmuch as I have previously stated my own conclusions on the issue of the legality of the arbitrated agreement, and inasmuch as Mr. James T. Hoffmann, the other arbitrator, has indicated his dissent, counsel for the parties may desire to have the benefit of my personal views on that issue. With this in mind, I submit to counsel the attached Memorandum as reflecting and explaining my individual opinion upon this question of law.

Therefore, it is my opinion that *if* it were necessary or required for the issue of legality to be decided by the arbitrators, then the arbitrated agreement should be found to be legal and enforceable. This opinion thus provides a secondary reason for my concurrence with award.

As stated, I fully agree with the conclusion that a finding by the arbitrators upon the legality of the agreement is not necessary or required in the arbitration of this case for the reasons set forth in detail in said Supplemental Report and Award. The submission of this Memorandum disclosing my personal opinion upon the legality of the

agreement does not impair nor lessen my concurrence and agreement in the Supplemental Report and Award signed by me as arbitrator.

Respectfully,

BRUCE B. KROST.

December 19, 1952,
Cleveland, Cuyahoga County, Ohio.

MEMORANDUM.

In Re the Arbitration Between

Cork-A-Lite Development Trust
and
Automatic Die & Products Company.

The Agreement, subject of this arbitration, dated January 30, 1950 between Cork-A-Lite Development Trust and The Automatic Die & Products Company includes a license under certain patents to make automobile mufflers, and contains the following paragraph consisting of two sentences:

> "10. Automatic will commence the production of mufflers as soon as possible, and will use its best endeavors to market and sell to as wide an extent as its facilities permit the mufflers which are the subject matter of this agreement. Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automobile Engine Muffler, and will not, at any time, engage in any business competing therewith."

The above agreement was arbitrated in accordance with paragraph 24 thereof. Hearings were held at various times from February 7, 1952 to March 12, 1952 and thereafter briefs were filed by counsel for the respective parties. In the brief filed upon behalf of Automatic, there was presented for the *first time* the argument that the inclusion of the above quoted paragraph 10 in the agreement rendered it illegal and unenforceable. This tardiness in raising the issue is mentioned here because it is to be noted

that there was *no evidence* in the case as to how paragraph 10 had actually operated, as to whether there had been restraint in fact, as to whether there had been restraint of interstate commerce, as to how much competition had in fact been curtailed, as to whether the provisions of paragraph 10 were unreasonable in view of all the circumstances in which one party acquired a business or commercial rights from the other, nor as to other facts which would support the charge of "illegality" other than express words of the quoted paragraph themselves. Thus, the challenge to the paragraph is strictly a legal challenge and has not presented a question of fact because there is no evidence, other than the agreement itself, in the record establishing a restraint of trade in violation of law. The challenge raised by Automatic's brief of May 7, 1952 therefore presents the following:

ISSUES.

What is the legal effect of the mere inclusion of paragraph 10 in the subject agreement of January 30, 1950?

Sub-issues may be listed as:

(1) Does the inclusion of this paragraph (upon which there has been no testimony) make illegal the *entire* agreement and render it *completely* unenforceable?

(2) *If* the entire agreement is *entirely* illegal and unenforceable, does this include paragraph 24 under which the arbitrators were appointed and thus also render as *void and of no legal effect* their appointment, hearings, proceedings and award (including an opinion as to legality)?

(3) Does the inclusion of this paragraph but without *any evidence*, other than the agreement, as to its effect, as to the intent and purpose of the parties, as to the actual results accomplished, and as to the surrounding circumstances, sufficient in itself to render the entire agreement illegal and unenforceable as a matter of law? (Challenged as a matter of law as by a demurrer.)

(4) Does the inclusion of that paragraph, *if* the provisions of the paragraph are illegal, operate to merely make *that* paragraph unenforceable without affecting the remainder of the agreement? (No attempt has been made to enforce the specific provisions of that paragraph.)

(5) Are the provisions of paragraph 10 *unreasonable* as restraints in view of all the circumstances wherein a business or commercial activity was in effect being transferred from one party to another?

(6) Are the provisions of paragraph 10 shown to be in unreasonable restraint of *interstate* commerce?

(7) Is the situation in which counsel for Automatic helped draft the agreement, in which the parties acted under the agreement for months, in which Automatic used the Trust's property and possessed the Trust's patent rights for months, in which Automatic did not present or discuss the issue of the legality of paragraph 10 throughout the hearings nor in any letter or brief until raised by its brief of May 7, 1952, such as to *estop* Automatic from now relying upon such issue to escape liability for payment it would otherwise be required to make to the Trust?

A. LAW CITED BY AUTOMATIC REGARDING LEGALITY OF PARAGRAPH 10.

No specific statutory provisions applicable to the situation have been identified. The law on the subject is "court made law" as to whether obligations said to be similar to that found in paragraph 10 are in violation of federal statutes, specifically 15 U. S. C. 1.

The decisions cited by Automatic in support of its contention of illegality, and considered at all relevant to the point, are three in number, the first two being cited in Automatic's brief of May 7, 1952 and the third being cited on August 27, 1952 after the date of the award. These three decisions are:

CASE 1: *National Lock Washer Co. v. Geo. K. Garrett Co.*, 137 Fed. (2nd) 255; 58 U. S. P. Q. 460, CCA 3—1943.

CASE 2: *McCullough v. Kammerer Corporation*, 166 Fed. (2nd) 759; 76 U. S. P. Q. 503, CCA 9—1949.

CASE 3: *Park-In Theatres v. Paramount-Richards*, 81 Fed. Supp. 466; 80 U. S. P. Q. 6, Del.—1948.
Final decision at: 90 Fed. Supp. 730; 85 U. S. P. Q. 353, Del.—1950.
Affirmed at: 185 Fed. (2nd) 407; 88 U. S. P. Q. 165, CCA 3—1950.

COMMENT ON CASE 1:

(a) This was a *patent infringement* suit whereas the instant matter involves a controversy for breach of contract.

(b) There were a *number* of *non*-exclusive licenses containing the restrictions whereas in the instant matter there is only one license, an exclusive license.

(c) The restrictive covenant may have been considered in that case as broader than necessary under the circumstances of that case and hence unreasonable. Here there is no evidence upon which to base such a conclusion.

(d) The ruling of this case *has not been adopted* in the Sixth Circuit. The "new law" created in that decision is unique and there is no precedent for it. This entirely novel doctrine of law "discovered" for the first time by the Third Circuit of Appeals and radically pushing the frontier on the "abuse of patents" philosophy to a new limit is not authority controlling in this Sixth Circuit. It is not authority in the instant case, in any event and in any circuit, because the facts, principles and basic nature of the case are far removed from that of the cited decision. Although urged to apply the doctrine of that decision to a case before him, Judge Jones of the Northern Ohio District Court declined to do so and instead said that the inclusion of a covenant not to engage in a competing activity, such as in the subject paragraph 10 (whether the covenant is expressed or implied) "would *not* convert a seemingly valid

patent license into an illegal and unenforceable contract," in the case of *Steffen v. W. J. Schoenberger Co.*, 90 Fed. Supp. 710; 85 U. S. P. Q. 207.

COMMENT ON CASE 2:

(a) This decision of the Ninth Circuit Court of Appeals, like that of the National Lock Washer case, was a *patent infringement* suit. As in that case, the parties were not in a fiduciary relationship created by one party being entrusted through an agreement with the exclusive control and possession of the other's property. The infringing defendant used no contractual duty nor obligation of good faith to the patent owner.

(b) The large size of the business conducted by the licensee in the McCullough case and its alleged near-monopoly on use of all devices of the general class involved seemed to be an important factor in the making of the decision in that case. In the instant agreement, subject of arbitration, none of those elements have been shown to be present. There is no suggestion that Automatic exercised the large monopoly in its field that was found in the McCullough case.

(c) The Supreme Court cases "cited" in the McCullough decision are not valid authorities for the holding made. The *only* "authority" for the McCullough decision is the National Lock Washer decision.

(d) Whatever "authority" the McCullough case might purport to be, its voice is considerably weakened by the fact that Judge Yankwich, presiding in the District Court, and Judge Bone, dissenting in the Court of Appeals, were of an *opposite view*.

(e) The frail and thin kind of arguments supporting the majority holding and the lack of authoritative precedent for it, are best stated by the vigorous dissenting opinion of Judge Bone, as for example:

> "It is a significant and interesting fact that no case has been cited to us which is 'on all fours' with the case at bar. So in order to plaster this license agree-

ment with badges of illegality, said to clearly appear on its face, this court turns to and lists quotations from cases dealing with totally different states of fact. Employing this process of analogy, it concludes that the instant agreement, per se, is legal proof that the parties thereto deliberately contracted and agreed to engage in the activities, and commit the various legal sins, found to be present, and constituting the dominant legal issue in such cases as (here listing some recent Supreme Court cases dealing with abuse of patents.—Ed.).

"This oblique process undertakes to prove too much. The facts and the real legal issue in this case are poles apart from those in the cases just referred to, some of which are relied upon in the court's opinion."

Commenting upon the crocodile tears shed, and the indignant protestations made by the defendant Kammerer in behalf of the "public interest," "free enterprise" and the usual phrases used as a shield to hide his derelictions and to escape personal liability, Judge Bone dryly noted:

"On the contrary he busied himself in the work of preserving and promoting his own special brand of 'free enterprise' by calmly appropriating another man's original and patented idea."

(f) The ruling of the McCullough decision, like that of the National Lock Washer decision, has not been adopted by the Sixth Circuit. As noted, Judge Jones expressly refused to follow the "law" enunciated by the McCullough and National Lock Washer decisions.

(g) The rulings in the McCullough and National Lock Washer decisions, if extended to the extreme limit required for the purpose of supporting Automatic's contentions, would logically encompass and *invalidate thousands of contracts* upon which everyday business is conducted. Such an extension would involve a radical change in the rules of the game while the game is in progress. For

example, an employment contract wherein the employee agrees to devote his full time and best efforts to performing the contracted-for service carries with it a negative covenant implied by law. This negative covenant "restrains trade" in that it prevents the employee from working for someone else and from using his time, effort and facilities for producing things for others, during the term of employment. Other examples of ordinary commercial contracts which in effect "restrain trade," whether expressed in negative terms or not, could readily be given. To suggest the further extension of the doctrine of these cases is treading on exceedingly dangerous ground. Any extension of the doctrine beyond the facts in those cases and any adoption of the "law" of those cases of the Third and Ninth Circuits in this jurisdiction, particularly when the District Court in Cleveland has expressly refused to do so, is not appropriate for action by arbitrators.

COMMENT ON CASE 3:

(a) This, the Park-In Theatres case, is more in favor of Automatic's position than was the National Lock Washer case because in the latter decision there were two actions involved, one for breach of a patent license agreement and the other, in the alternative, for patent infringement if the defendant were not operating under the license. The decision in the Park-In Theatres case *extended* the doctrine of the National Lock Washer decision to cover both the action on the license agreement and the action for patent infringement and thus ruled that a negative "noncompetition" covenant in a license agreement provided a defense in the action for breach of the license agreement.

(b) The Park-In Theatres decision is also a decision of the Third Circuit Court of Appeals. The only authorities in point cited by the Court were the prior National Lock Washer case of the Third Circuit and the McCullough case of the Ninth Circuit. The National Lock Washer decision of the *same circuit* was held controlling in the Park-In Theatres case, but is not so controlling in the Sixth Circuit.

(c) The court in the latest case in the Third Circuit expressly refused to consider whether or not the law implied such a negative covenant (as expressed in instant paragraph 10) in an exclusive license agreement, but merely followed and extended the holding in the prior National Lock Washer Company. A consideration of all the law on the subject would have led to a different result.

(d) In the latest decision, as in the earlier decisions, the basis for the holding made was not a finding of a contract in restraint of trade as a violation of statute. Rather, the basis for those decisions is "court made law" that the inclusion of such negative covenants in a patent license agreement is against that vague concept known as "public policy" and therefore constituted an "abuse of the patent monopoly." It was indicated in the Park-In Theatres decision that if a patent had not been involved, the holding might have been otherwise, but there was no offer of a rationale or explanation for the distinction nor was there a suggestion as to how public policy was injured more when there was restraint in a patent license agreement than when there was the same restraint in a non-patent agreement.

(e) The decision in the Park-In Theatres case is full of cliches and trite remarks about the philosophical purposes of the patent system. It reveals a determination to avoid consideration of all pertinent law and to blindly follow the prior National Lock Washer decision and to even extend its effect. Because the two decisions of the Third Circuit and the one decision of the Ninth Circuit are not legally binding in the Sixth Circuit, they may be analytically considered and the merits of the decisions duly weighed. The type of reasoning, the kind of philosophy, and the determined attitude to reach a so-called "liberal" view upon patents regardless of all the law on the subject, do not recommend those decisions as persuasive authorities.

(f) The fact that the Park-In Theatres case and the McCullough case were not admitted to the Supreme Court

for review on the petitioning for a writ for certiorari neither adds to nor detracts from those cases. It is well known that refusal of the Supreme Court to review a case does not imply approval of the holding in the case below. To try to read into a denial of the writ by the Supreme Court any intent or mental views of the Supreme Court regarding the merits of the decision is not warranted.

(g) The decision which comes the closest in facts to the instant controversy, that is, the Park-In Theatres decision of the Third Circuit, stands alone and is supported partially only by the prior Third Circuit decision in the National Lock Washer case.

The "court-made law" discovered and enunciated in the above three decisions and based upon an alleged theory of "abuse of the patent monopoly in violation of public policy" and not upon statute law nor upon general contract law, constitutes the authority of Automatic for its argument of "illegality" of paragraph 10.

B. THE OBLIGATIONS OF PARAGRAPH 10 ARE NECESSARILY A PART OF AN EXCLUSIVE PATENT LICENSE AGREEMENT.

There is a line of decisions which hold that in an exclusive patent license agreement there is an *implied obligation* that the licensee will not engage in competitive activities to the detriment of his positive duties to fully and faithfully exploit the exclusive patent rights possessed by him. These cases hold in effect that the obligations as set forth in paragraph 10 of the instant agreement are necessarily a part of every exclusive patent license agreement whether expressed or not. Some of these decisions are:

CASE 4: *General Finance Corp. v. Dillon,* 172 Fed. (2nd) 924; 80 U. S. P. Q. 341, C. C. A. 10—1949.

CASE 5: *Guardina Tank Corp. v. Olsson,* 89 N. Y. S. (2nd) 691; 81 U. S. P. Q. 318, N. Y. S. Ct.—1949.

CASE 6: *Brawley v. Crosby Research Foundation,* 166 Pac. (2nd) 392; 68 U. S. P. Q. 406, Cal. App.—1946.

CASE 7: *Crowe v. Oscar Barnett Foundry Co.*, 213 Fed. 864, N. J.—1914.
(Slightly modified & affirmed, 219 Fed. 450; C. C. A. 3—1915).

CASE 8: *Neenan v. Otis Elevator Co.*, 194 Fed. 414, C. C. A. 2—1912.

CASE 9: *Matzka Corp. v. Kelly Dry-Pure Fruit Corp.*, 19 Del. Ch. 359; 168 Atl. 70, Del.—1933.

CASE 10: *DeStubner v. Microid Process*, 121 W. Va. 773; 6 S. E. (2nd) 777, W. Va.—1939.

CASE 11: *Nelson et al. v. Mills Music, Inc. et al.*, 278 App. Div. 311; 89 U. S. P. Q. 554, N. Y.—1951.

It seems clear that we have here presented a conflict and direct inconsistency between two lines of cases. The decisions of Cases 1, 2 and 3 cited by Automatic are irreconcilable with the above last listed Cases 4 to 11.

To suggest that provisions like paragraph 10 of the instant agreement are "unlawful" is to suggest that the law implies the unlawful. Even the statement of the proposition provides its own answer. Of course, a provision which the law implies and which therefore by law is a part of a contract cannot under the same legal system be considered to be unlawful. A contract cannot be any more illegal by expressing in it that which the law says is inherently a part of it.

The law in this jurisdiction is in line with the last listed line of cases as indicated by the decision of Judge Jones in the case of *Steffen v. W. J. Schoenberger Co.* when he was confronted with the election of following one or the other of the two lines of decision. The language of his decision made clear his preference for the philosophy and authority of the last listed line of decisions, Cases 4 to 11.

C. THE SECOND SENTENCE OF PARAGRAPH 10 IS BUT THE NEGATIVE EXPRESSION OF THE POSITIVE COVENANT OF THE FIRST SENTENCE WHICH IS LEGAL.

Paragraph 10 of the subject agreement consists of two sentences. The first sentence is in positive terms and reads:

> "Automatic will commence the production of mufflers as soon as possible, and will use its *best endeavors* to market and sell *to as wide an extent as its facilities permit* the mufflers which are the subject matter of this agreement."

The above is a usual provision and no reason has been given as to why it is not perfectly proper and fully legal.

As is often done in the drafting of legal documents, the thought of the first sentence was repeated but phrased in the negative rather than in the positive. The same covenant of Automatic to use its best endeavors to the widest extent of its facilities as repeated *in the negative*, was phrased in the second sentence of paragraph 10 as follows:

> "Automatic agrees that it will not manufacture or sell any muffler other than the Campbell Super Silent Automobile Engine Muffler, and will not, at any time, engage in any business competing therewith."

This second sentence only means that Automatic will use its *best endeavors* to market and sell subject mufflers *to as wide as an extent as its facilities permit* and further that

> it will not engage in any activity inconsistent with, or detrimental to, the positive covenant made, and obligation assumed, that were previously expressed (and inherently implied as well).

Such obligations, although there is in them an incidence of restraint, have been recognized as proper and legally part of contracts in the following situations:

CASE 12: *Harris v. Ohio Oil Co.*, 57 O. S. 118; 48 N. E. 502, Ohio—1897.

In the above case involving a five-year lease giving the exclusive rights to drill for oil and gas on the premises, it was held that there is an *implied obligation* on the lessee to diligently and fairly exploit the drilling rights.

In view of the obligation imposed by law upon the lessee to drill and develop wells on the leased land and in view of the limited drilling facilities of the lessee (facilities of every oil driller and of every manufacturer are "limited"), it follows that the lessee's right to drill at other places at the same time with the same facilities was inherently limited. An obligation to perform a positive duty necessarily carries with it a negative restriction on doing that which is inconsistent with the performance of the positive duty. For example, we loosely say that restraint of trade is illegal and yet every sale involves a restraint on trade. The seller of property is necessarily restrained from selling the same property to another. There is an inherent inconsistency between a private sale or contract and a theoretical freedom of restraint on trade. Every covenant to positively do something includes a negative covenant to refrain from doing anything inconsistent with the positive covenant.

CASE 13: *Fuchs v. Motor Stage, Inc.*, 135 O. S. 509; 21 N. E. 669, Ohio—1939.

In this last cited case, it was held in effect that the positive covenant by a purchaser to purchase all of his requirements from a seller inherently implied a negative covenant to restrain from buying the requirements from another who was a competitor of the seller. Here as in other decisions, the positive covenant carried with it a negative covenant to refrain from doing anything inconsistent with, or detrimental to, the performance of the positive covenant. The positive covenant being legal, its equivalent in negative phrasing is equally legal.

CASE 14: *Kane v. Chrysler Corporation*, 80 Fed. Supp. 360, Del.—1948.

In this case involving an automobile exclusive agency contract, there was recognized the validity of an express agreement not to engage in the sale and promotion of competing automobiles of other manufacturers. This situation is typical of many exclusive distribution or agency agreements. Whether or not there are patents on the automobiles (and there are patents on them) or on the other goods being sold is of no consequence. There is no logic or reason for applying the law differently in the situation where there is a patent involved than where there is not. The majority view is that the presence of a patent does not affect the legality of a contract in regard to whether or not it is in illegal restraint of trade in violation of the anti-trust statutes. *Only* in the decisions of Cases 1, 2 and 3 has a court gone off on a theory of "abuse of patents" as distinct from contract law in relationship to the anti-trust statutes and thus ignored all other aspects of the law in order to announce the new discovery of another "abuse of patents" doctrine.

CASE 15: *Brosius v. Pepsi-Cola Co. et al.*, 155 Fed. (2nd) 99; 69 U. S. P. Q. 284, C. C. A. 3—1946.

In this case it was held that a contract between a manufacturer (Pepsi-Cola Co.) and its distributor and containing a covenant restraining the distributor from handling the goods of a competitor was not illegal restraint of trade nor in violation of the anti-trust statutes. The fact that the drink concentrate being distributed was subject of a trademark (Pepsi-Cola) did not appear to change the law any more than it would if the goods were subject of a patent. Whether the goods are trademarked or patented is irrelevant to the true point of law involved, to-wit: is there a contract in unreasonable restraint of trade in interstate commerce in violation of the anti-trust laws?

Whether the obligation is stated in positive terms as in the first sentence of paragraph 10 or is stated in nega-

tive terms as in the second sentence of paragraph 10 is not the question. Stated either positively or negatively, as found in the above cases, the covenant can be fully legal and enforceable. These last cited decisions of Cases 12 to 15 illustrate that obligations as expressed in paragraph 10 of the instant agreement are legal, are not in violation of statutes, and are enforceable.

D. THERE IS NO EVIDENCE OF ANY RESTRAINT OF TRADE IN INTERSTATE COMMERCE.

As there is no evidence of any sales of any mufflers by Automatic, there was no trade in mufflers arising from the subject agreement, neither interstate nor intrastate in character. Before the anti-trust statutes, 15 U. S. C. 1-33, can apply, *interstate* commerce must be involved. The sole authority of Congress to legislate on the subject is derived from the constitutional clause giving it power to regulate commerce among the several states, with foreign nations and with the Indian tribes. None of these types of commerce have been shown to have been affected.

That interstate commerce, as distinct from intrastate commerce, must be substantially and directly affected by the alleged restraint has been held in:

CASE 16: *Anderson v. United States,* 171 U. S. 604; 19 S. Ct. 50—1898.

E. THERE IS NO EVIDENCE OF ANY RESTRAINT THAT IS "UNREASONABLE."

It is well accepted that before a contract can be considered as in violation of the anti-trust statutes the restraint that arises from the contract must be an "unreasonable" restraint of trade. This is necessarily so because, as previously pointed out, almost all contracts to some degree are in restraint of trade. It is only those restraints which are unreasonable in the common law sense of the word that can be considered as violative of the statutes. Some substantial part of interstate commerce must be involved and the injury to the public must be real rather

than fanciful. In other words, the law must be realistic or otherwise many private contracts would be set aside and there would be little stability or certainty in business affairs. Some decisions indicating the requirement of *unreasonableness* in the restraint to be unlawful are the following:

CASE 17: *District of Columbia Pub. v. Merchants Assn.*, 83 Fed. Supp. 994, D. C. D. Ct.—1949.

CASE 18: *United States v. Timken Bearing Co.*, 83 Fed. Supp. 284, Ohio—1949.

CASE 19: *United States v. Swift & Co.*, 52 Fed. Supp. 476, Colo.—1943.

CASE 20: *United States v. Associated Press*, 52 Fed. Supp. 362, N. Y.—1943.
Affirmed: 326 U. S. 1; 65 S. Ct. 1416.

F. IN THIS JURISDICTION PROVISIONS LIKE THOSE OF PARAGRAPH 10 ARE LAWFUL.

The decisions in this jurisdiction are not in accord with the decisions of Cases 1, 2 and 3. The holdings of the decisions in our jurisdiction clearly indicate that covenants like those of paragraph 10 of the instant agreement, whether stated in positive or negative terms, are not in violation of law and are enforceable.

In addition to the Ohio decisions of Cases 12 and 13, supra, the following decisions in this jurisdiction demonstrate that the provisions of paragraph 10 are not unlawful, and particularly are not unlawful in Ohio:

CASE 21: *Gordon v. Deckebach*, 12 Ohio Weekly Bulletin 169; 9 Ohio Dec. Reprint 324, Hamilton Dist.—1883.

CASE 22: *International Paper Box Co. v. Wolfe Env. Co.*, 4 Ohio Law Abstract 482, Oh. App.—1926.

CASE 23: *List v. Tobacco Grower's Assn.*, 114 O. S. 361; 151 N. E. 471, Ohio—1926.

CASE 24: *Producer's Assn. v. Milk Co.*, 129 O. S. 159; 194 N. E. 16, Ohio—1934.

CASE 25: *Steffen v. W. J. Schoenberger Co.*, 90 Fed. Supp. 710; 85 U. S. P. Q. 207, Ohio—1950.

In the last cited decision, Case 25, it was pointed out that *if* such obligations to refrain from competition were illegal, that would only make that obligation unenforceable and would not make the entire agreement illegal. This is in line with a decision that even if a combination of the defendants were illegal, they cannot refuse to pay for material bought for them under contracts, reported in the following:

CASE 26: *Connolly v. Sewer Pipe Co.*, 184 U. S. 540; 22 S. Ct. 431—1902.

It appears clear that in this jurisdiction contracts containing covenants similar in restraining effect to that found in paragraph 10 are not illegal and are enforceable.

G. "ABUSE OF PATENTS" IS NOT A CONCLUSION TO BE SUMMARILY REACHED FROM MERE READING OF WORDS IN A CONTRACT BUT MUST BE BASED UPON EVIDENCE OF RECORD AS TO CIRCUMSTANCES, INTENT, RESULTS, AND THE LIKE.

The defense of "abuse of patents" is such that it should not be considered as an absolute defense apparent on the face of a pleading or contract. It has been held that a motion for summary judgment should not be given on the defense of "abuse of patents" because this is a factual question to be decided on the evidence at trial. "Abuse of patents" as a defense is a matter of the spirit and intent with which the course of business conduct allegedly constituting the misuse is done. Purpose or intention is a fact inference. All of the facts as to the circumstances, results, purposes and effect of the alleged "misuse" must be placed in evidence and a judgment formed upon the basis of that evidence. A summary judgment based merely on the words in a contract rather than upon factual evidence is not appropriate.

Decisions indicating that it would not be proper to summarily hold the subject agreement containing paragraph 10 to be illegal per se include the following:

CASE 27: *Paul E. Hawkinson Co. v. Dennis*, 166 Fed. (2nd) 61; 76 U. S. P. Q. 363, CCA 5—1948.

CASE 28: *Gray Tool Co. v. Humble Oil Co.*, 186 Fed. (2nd) 365; 88 U. S. P. Q. 165, CCA 5—1951.

CASE 29: *Fluid Systems, Inc. v. Great Lakes Eqpt. Co.*, 98 Fed. Supp. 220; 89 U. S. P. Q. 366, Ohio—1951.

In the last cited case, Judge Jones of the District Court at Cleveland, citing Cases 27 and 28, held that abuse of patents as a defense was not a matter to be concluded without evidence upon all the pertinent facts by grant of summary judgment. Similarly, the alleged illegality of the instant agreement cannot be found from the mere words found in paragraph 10. There is a complete absence of evidence in the record upon which a judgment of illegality could possibly be based.

CONCLUSION.

It is my opinion that the agreement of January 30, 1950, containing paragraph 10, is not illegal and is enforceable. The inclusion of paragraph 10 in the agreement did not render the agreement invalid, illegal or unenforceable, in my view of the law.

BRUCE B. KROST.

Cleveland, Cuyahoga County, Ohio.

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In the Supreme Court of the United States

No. 688.

OCTOBER TERM, 1954.

THE AUTOMATIC DIE & PRODUCTS CO.,
An Ohio Corporation,
Petitioner,

vs.

JOHN M. CAMPBELL and PHILMORE J. HABER,
As Trustees for
THE CORK-A-LITE DEVELOPMENT TRUST,
Respondents.

BRIEF OF RESPONDENTS.

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TABLE OF CONTENTS.

Argument:

Summary 1

1. The Case At Bar Does Not Present a Federal Question 2
2. The Petitioner Is Estopped by Its Conduct and the Decision of the Ohio Supreme Court on This Point Is Final 5
3. Even if the Decision of the Ohio Supreme Court Were Partially Based Upon a Federal Question, There Is an Adequate State Ground to Sustain the Decision and the Jurisdiction of This Court Fails 6

Conclusion 7

TABLE OF AUTHORITIES.

Cases Cited or Distinguished.

Addressograph-Multigraph Corp. v. American Expansion Bolt & Mfg. Co., 124 F. 2d 706 (7th Cir. 1942), Cert. Den. 316 U. S. 682 (1942) 3

Brosious v. Pepsi Cola, 155 F. 2d 99 (3rd Circuit, 1946) 4

Central Union Telephone v. City of Edwardsville, 269 U. S. 190 (1925) 6

East Ohio Gas Co. v. Tax Commr., 283 U. S. 465 (1931) 4

Erie RR v. Tompkins, 304 U. S. 64 (1938) 3

Ewing-VonAllmen Dairy Co. v. C & C Ice Cream Co., 109 F. 2d 898 (6th Cir. 1940) 4

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S. 282 (1902) 2

Fox Film Corp. v. Muller, 296 U. S. 207 (1935) 7

General Motors v. Rubsam, 65 F. 2d 217 (6th Cir., 1933) 2

Gully v. The First National Bank, 299 U. S. 109 (1936) 5
Hartel v. Tilghman, 99 U. S. 547 (1879) 2
Hartford Life Ins. Co. v. Johnson, 249 U. S. 490 (1919) 6
Loews Drive-In Theatres, Inc. v. Park-In Theatres, Inc., 174 F. 2d 547 (1st Cir., 1949) 3
Lord v. Goodall, 102 U. S. 541 (1880) 4
Luckett v. Delpark, Inc., 270 U. S. 496 (1926) 2
Lynch v. New York, 293 U. S. 52 (1934) 7
MacGregor v. Westinghouse Electric & Mfg. Co., 329 U. S. 402 (1947) 5
McCollough v. Kammerer Corp., 166 F. 2d 759 (9th Cir. 1948), Cert. Den. 335 U. S. 813 (1948) 2, 3
National Lock Washer Co. v. George K. Garrett Co., 137 F. 2d 255 (3rd Cir. 1943) 2, 3
New Orleans v. New Orleans Waterworks Co., 142 U. S. 79 (1891) 7
Park-In Theatres, Inc. v. Paramount-Richards Theatres, 81 F. Supp. 466 (1948), 90 F. Supp. 730 (1950), Aff'd. 185 F. 2d 407 (3rd Cir. 1950) Cert. Den. 341 U. S. 950 (1951) 2, 3
Penna. RR v. The Ill. Brick Co., 297 U. S. 447 (1936) 6
Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173 (1942) 5
Swift & Co. v. U. S., 196 U. S. 375 (1905) 4
U. S. v. Yellow Cab Co., 332 U. S. 218 (1947) 4
Wilson v. Sandford, 10 How. 55 (1850) 2

Statutes.

Clayton Act 3, 4
Judicial Code, Section 1257 6
Ohio General Code, Sec. 1248-10(d) (R. C. 2711.10) 6
28 U. S. C. Sec. 1332 3
28 U. S. C. Sec. 1338(a) 3
28 U. S. C. Sec. 1338(b) 3

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BRIEF OF RESPONDENTS.

ARGUMENT.

Summary.

The writ should be denied for the following reasons:

1. **The case at bar does not present a federal question.**
2. **The petitioner is estopped by its conduct and the decision of the Ohio Supreme Court on this point is final.**
3. **Even if the decision of the Ohio Supreme Court were partially based upon a federal question, there is an adequate state ground to sustain the decision and the jurisdiction of this Court fails.**

1. THE CASE AT BAR DOES NOT PRESENT A FEDERAL QUESTION.

Conceding for the sake of this Brief that everything that Petitioner has stated about the three "federal cases"

National Lock Washer Co. v. George K. Garrett Co., 137 F. 2d 255 (3rd Cir. 1943);
McCollough v. Kammerer Corp., 166 F. 2d 759 (9th Cir. 1948). Cert. Den. 335 U. S. 813 (1948);
Park-In Theatres, Inc. v. Paramount-Richards Theatres, 81 F. Supp. 466 (1948), 90 F. Supp. 730 (1950), Aff'd. 185 F. 2d 407 (3rd Cir. 1950) Cert. Den. 341 U. S. 950 (1951),

is true, still it has failed to show how they justify this Court's taking jurisdiction and granting the writ. These three cases form the sole foundation for Petitioner's claim and their decisions do not establish that the case at bar presents a federal question.

The rule is well settled that questions involving the License Agreement itself are not questions under the patent laws even though a patent is the source of the license. The instant suit for royalties could not even have been brought in a federal court.

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S. 282 (1902).

Even where a suit for royalties is combined with an action for infringement, federal courts have no jurisdiction of the count for royalties.

Luckett v. Delpark, Inc., 270 U. S. 496 (1926);
Hartel v. Tilghman, 99 U. S. 547 (1879);
Wilson v. Sandford, 10 How. 55 (1850);
General Motors v. Rubsam, 65 F. 2d 217 (6th Cir., 1933);

Loews Drive-In Theatres, Inc. v. Park-In Theatres, Inc., 174 F. 2d 547 (1st Cir., 1949).

It took a special statute to assure the right to prosecute in the federal courts a claim for unfair competition when joined with a "substantial and related claim under the patent laws." 28 U. S. C. Sec. 1338 (b).

The *Lock Washer* case was a patent infringement case.

The *McCollough* case was a patent infringement case.

The *Park-In* case was a diversity of citizenship case. (See report of Case in 7 F. R. D. 726.)

These three "federal cases" relied upon by the Petitioner were "federal cases" by virtue of the infringement (28 U. S. C. Sec. 1338(a)) and diversity of citizenship (28 U. S. C. Sec. 1332) sections of the Judicial Code and not because the abuse of patents was urged as a defense. Therefore, even if these cases had reached a conclusion opposed to that of the Ohio Supreme Court, they do not and cannot establish a federal common law rule binding on a State Court.

Erie RR v. Tompkins, 304 U. S. 64 (1938).

In an effort to create a federal question, Petitioner quoted at length from the Clayton Act, but this lengthy recital is not a substitute for the necessary factual showing that there was interstate commerce. Moreover it has been held that even where there is unfair competition, interstate in scope, but no infringement is involved, State laws are applicable under the *Erie RR* doctrine.

Addressograph-Multigraph Corp. v. American Expansion Bolt & Mfg. Co., 124 F. 2d 706 (7th Cir. 1942). Cert. Den. 316 U. S. 682 (1942).

The report of the arbitrators (Petition Appendix pages 10a through 41a) and the opinion of the Ohio Su-

preme Court (Petition Appendix page 8a) clearly demonstrate that no muffler was ever manufactured or sold in interstate commerce. The mere fact that some of the material used in the manufacture flowed across State lines does not render the manufacture interstate commerce.

East Ohio Gas Co. v. Tax Commr., 283 U. S. 465 (1931);

Brosious v. Pepsi Cola, 155 F. 2d 99 (3rd Circuit, 1946);

Ewing-VonAllmen Dairy Co. v. C & C Ice Cream Co., 109 F. 2d 898 (6th Cir. 1940).

So also the mere transportation to test a muffler was not interstate commerce since "commerce includes intercourse * * * traffic alone is not enough."

Lord v. Goodall, 102 U. S. 541 (1880);

See also *U. S. v. Yellow Cab Co.*, 332 U. S. 218 (1947).

Interstate commerce is an intensely practical concept drawn from the normal and accepted course of business.

Swift & Co. v. U. S., 196 U. S. 375 (1905).

Mere echoes of patents, Clayton Acts, and federal decisions in a State case do not create a "federal question."

> "What is needed is something of that common-sense accommodation of judgment to kaleidoscopic situations which characterizes the law in its treatment of problems of causation. One could carry the search for causes backward almost without end * * *. If we follow the ascent far enough, countless claims of right can be discovered to have their source or their operative limits in the provisions of a federal statute or in the Constitution itself with its circumambient restrictions on legislative power. To set bounds to the pursuit, the courts have formulated the distinction be-

tween controversies that are basic and those that are collateral, between *disputes that are necessary and those that are merely possible.* We shall be lost in a maze if we put that compass by." (Emphasis ours.)

Cardozo, J. in *Gully v. The First National Bank*, 299 U. S. 109 (1936).

2. THE PETITIONER IS ESTOPPED BY ITS CONDUCT AND THE DECISION OF THE OHIO SUPREME COURT ON THIS POINT IS FINAL.

We have demonstrated that there is no federal question in the instant case. If there were and the doctrines set forth in the cases of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173 (1942), and *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U. S. 402 (1947), were controlling, the Petitioner would still be estopped from asserting the defense of illegality. An examination of the *Sola* and *MacGregor* cases reveals that state laws of estoppel were superseded by federal law where the estoppel arose out of the terms of the contract itself. Thus, in the *MacGregor* case, the State court held that a licensee was estopped to deny the validity of his licensor's patent which he had agreed to recognize under the terms of the license contract. Similarly, in *Sola* as to pricing arrangements in the contract.

In the instant case, the Ohio Supreme Court held the Petitioner estopped on a procedural ground based upon his own actions completely independent of the License Agreement.

The court points out, and the uncontroverted record indicates that it was not until far into the fourteen-month arbitration that Petitioner made the claim that the contract was illegal. The Ohio court did not, as did the courts in the *Sola* and *MacGregor* cases, hold that if Petitioner had

timely raised his objection, he would have been estopped by the terms of the license contract. In fact, the opinion (Petition Appendix page 9a) sets forth methods by which Petitioner could have raised the issue under State procedure.

The Ohio Supreme Court decided a State law question based upon local procedural rules and statutes, and this Court is bound by such decision. A federal claim being asserted under Judicial Code Section 1257 to give this Court jurisdiction must be asserted at the proper time and in the proper manner *under the State system of procedure* and the question of whether the claim has been so asserted is a question of State law.

Penna. RR v. The Ill. Brick Co., 297 U. S. 447 (1936);

Central Union Telephone v. City of Edwardsville, 269 U. S. 190 (1925);

Hartford Life Ins. Co. v. Johnson, 249 U. S. 490 (1919).

3. EVEN IF THE DECISION OF THE OHIO SUPREME COURT WERE PARTIALLY BASED UPON A FEDERAL QUESTION, THERE IS AN ADEQUATE STATE GROUND TO SUSTAIN THE DECISION AND THE JURISDICTION OF THIS COURT FAILS.

The Supreme Court of the State of Ohio held that the Petitioner was estopped from asserting the defense, that the award of the arbitrators was final and that the arbitrators did not exceed their powers within the contemplation of Subdivision (d) of Section 12148-10, Ohio General Code (now Revised Code Section 2711.10). (See Petition Appendix page 9a.) There are then good and sufficient State grounds for sustaining the judgment. This Court has clearly stated the rule governing the exercise of federal jurisdiction in such cases: If the State court judgment

rests on two grounds, one federal and one not, and the State ground is sufficient to sustain the judgment, then the U. S. Supreme Court *will not* take jurisdiction.

Lynch v. New York, 293 U. S. 52 (1934);
See also *New Orleans v. New Orleans Waterworks Co.,* 142 U. S. 79 (1891).

The rule is followed in anti-trust cases.

Fox Film Corp. v. Muller, 296 U. S. 207 (1935) (An action by a licensor v. a licensee on a contract containing an arbitration clause which the licensee asserted violated the Sherman Act).

CONCLUSION.

The writ should not issue because

(1) There is no federal question. In the federal decisions relied on by Petitioner, jurisdiction of the federal courts was based upon specific statutory jurisdictional grounds.

(2) The Petitioner is estopped by his conduct.

(3) Even if the decision of the Ohio Supreme Court were partially based upon a federal question, still there is an adequate State ground to sustain the decision and the jurisdiction of this Court fails.

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